

1 BEFORE THE PUBLIC UTILITIES COMMISSION

2 OF THE STATE OF HAWAII

3 ORIGINAL

4 In the Matter of the Application of)

5 HAWAIIAN ELECTRIC COMPANY, INC.) DOCKET NO. 2008-0083

6 For Approval of Rate Increases and)

7 Revised Rate Schedules and Rules.)

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10 TRANSCRIPT OF PROCEEDINGS

11 VOLUME VII

12
13 Public Utilities Commission hearing held on Tuesday,
14 November 3, 2009, commencing at 9 a.m., at 465 South King
15 Street, Honolulu, Hawaii, pursuant to Notice.16
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PUBLIC UTILITIES
COMMISSION

2009 NOV 23 A 11:08

FILED

20 REPORTED BY: TRISTAN-JOSEPH, CSR NO. 469

21 Certified Shorthand Reporter

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P R O C E E D I N G S

CHAIRMAN CALIBOSO: Good morning.

I'd like to call this proceeding back to order.

My name is Carlito Caliboso, Chairman of the Public Utilities Commission, joined by Commissioner John Cole and Commissioner Less Kondo.

Can I have the parties' appearances for the record, please?

MR. WILLIAMS: Good morning, Mr. Chairman, and Commission Cole and Commission Kondo.

Thomas Williams appearing on behalf of Hawaiian Electric Company.

CHAIRMAN CALIBOSO: Good morning. Thank you.

MR. ITOMURA: Good morning, Chair Caliboso, Commissioner Cole, Commissioner Kondo.

Jon Itomura on behalf of the Consumer Advocate. With me is Executive Director Cat Awakuni, Dean Nishina, and David Parcell.

CHAIRMAN CALIBOSO: Thank you.

MR. MCCORMICK: Good morning, Mr. Chairman and Commissioners.

Representing the Department of Defense today are myself James N. McCormick and Dr. Kay Davoodi.

CHAIRMAN CALIBOSO: Thank you very much.

We are still on the cost of capital topic. The

1 parties have already presented their witnesses, their
2 testimonies, they have conducted cross-examination and have
3 had an opportunity for redirect.

4 We are now at the point where we would have some
5 additional Commission questions unless there are any other
6 things we need to take care of beforehand.

7 MR. WILLIAMS: Mr. Chairman, we have no matters at
8 this time.

9 MR. ITOMURA: Consumer Advocate has no additional
10 matters.

11 MR. MCCORMICK: The Department of Defense has
12 nothing in addition to offer.

13 CHAIRMAN CALIBOSO: Thank you.

14 Could you name the witnesses that you have,
15 Mr. Williams?

16 MR. WILLIAMS: Yes. Mr. Chairman are witnesses for
17 Panel 13 are Dr. Morin and Ms. Tayne Sekimura and Mr. Steven
18 Fetter.

19 MR. ITOMURA: The witness for the Consumer Advocate
20 is Mr. Dave Parcell.

21 CHAIRMAN CALIBOSO: Thank you.

22 And everyone is still under oath.

23 The Commission questions, Mr. Kondo?

24 COMMISSIONER KONDO: I have some questions.

25 Doctor Morin, good morning.

1 MR. MORIN: Good morning, sir.

2 COMMISSIONER KONDO: I want to thank you in advance
3 for your patience and for helping me understand what I find to
4 be a very difficult area.

5 I want to get a better feel about your relationship
6 with HECO. How many times have you been retained by the HECO
7 companies?

8 When I say the "HECO companies," I'm talking about
9 Hawaiian Electric Company, Hawaiian Electric Light Company,
10 and Maui Electric Company.

11 MR. MORIN: Approximately, eight to ten cases
12 involving HECO, MECO, and HELCO companies.

13 COMMISSIONER KONDO: Have you been retained for the
14 purposes of the MECO rate case, the recently filed MECO rate
15 case?

16 MR. MORIN: Yes, sir, I have.

17 COMMISSIONER KONDO: Have you been retained for the
18 yet-to-be-filed HELCO rate case?

19 MR. MORIN: Yes, I have.

20 COMMISSIONER KONDO: And the eight to ten cases
21 that your first answered, does that include those first two
22 rate cases?

23 MR. MORIN: Yes, it does.

24 COMMISSIONER KONDO: How many hours have you spent
25 on this rate case?

1 MR. MORIN: It began in May 2008, the direct
2 testimony, the discovery process, the rebuttal testimony, and
3 update supplemental testimony, and another update, I would
4 say, in this landmark case, I would say something, like, about
5 15 minutes total. My days are long too, 10 hours a day.

6 COMMISSIONER KONDO: So roughly a 150 hours.

7 MR. MORIN: Yes, approximately.

8 COMMISSIONER KONDO: How much are you being paid
9 for your work as an expert?

10 MR. MORIN: Well, it depends. It's approximately
11 \$300 an hour and the fees are contingent on whether the cases
12 are settled or before rebuttal or after rebuttal or whether
13 there is surrebuttal. It all depends on this, but works out
14 to be approximately an hourly rate.

15 COMMISSIONER KONDO: Is it an hourly rate in your
16 contract?

17 MR. MORIN: No, it's a flat fee.

18 COMMISSIONER KONDO: What is the flat fee?

19 MR. MORIN: It's 60,000. A 25 percent rebate if
20 there's a settlement which there usually is or was in past
21 cases.

22 COMMISSIONER KONDO: Is that the same dollar amount
23 that your contract for the MECO rate case?

24 MR. MORIN: No, in the case when there's a, quote,
25 scaled economy, end of quote, and such as the case of MECO and

1 HELCO, there's a substantial discount.

2 COMMISSIONER KONDO: And how much is that contract?

3 MR. MORIN: Probably it would work out to be 58,000
4 for both cases.

5 COMMISSIONER KONDO: I'm sorry, you said?

6 MR. MORIN: Fifty-eight thousand for both cases.

7 COMMISSIONER KONDO: Have you executed contracts
8 for those cases?

9 MR. MORIN: I think for the HELCO one -- excuse me,
10 for the MAUI one, yes.

11 COMMISSIONER KONDO: And the value of that
12 contract?

13 MR. MORIN: Excuse me, my memory is being prodded
14 here. It was a contract for both MECO and HELCO, and it's 58.

15 COMMISSIONER KONDO: Can you estimate for me how
16 much of your time is spent consulting in matters like this
17 versus teaching?

18 MR. MORIN: Approximately, 90 percent for
19 regulatory economics or regulatory financing and approximately
20 10 percent teaching the executive MBA program at Georgia State
21 University, and that also includes writing books and papers
22 and so forth; so, 90/10 would be a good estimate.

23 COMMISSIONER KONDO: Ninety percent being the time
24 you spent consulting in cases like this?

25 MR. MORIN: Correct; and/or doing seminars and/or

1 writing related articles that have to do with regulatory
2 finance.

3 COMMISSIONER KONDO: In addition to representing
4 utilities, have you ever appeared as consultant for the
5 Consumer Advocate?

6 MR. MORIN: Not in the United States, no. My
7 relationships are with commissions in terms of education,
8 seminars, brainstorming sessions with commissioners, training
9 staff, commission staff, in regulatory financing.

10 COMMISSIONER KONDO: Have you ever served as a
11 consultant and filed a rate case for a commission?

12 MR. MORIN: Yes, in Canada.

13 COMMISSIONER KONDO: Is Canada's regulatory
14 systems, is it similar to the United States?

15 MR. MORIN: It's very, very similar. It's much
16 more formal, much more British-oriented but it's very similar.
17 It's rate of return regulation that's enforced. The one
18 glaring difference between the two is that most, if not all,
19 the Canadian utilities are regulated on a basis of a formula
20 approach to ROE.

21 The National Energy Board, which is like FERC, has
22 inaugurated the formula approach, and all the provinces have
23 adopted this formulaic approach to determine the ROE; so, we
24 don't have all these deliberative and lengthy and complicated
25 hearings to deal with the issue of rate of return, and they'll

1 review the formula periodically every five years or so.

2 COMMISSIONER KONDO: So it's much easier to figure
3 out what the rate of return is in Canada versus what we're
4 doing here?

5 MR. MORIN: Yes, it is, as long as the formula is
6 correct.

7 COMMISSIONER KONDO: So really the dispute in
8 Canada, if I understand what you're saying, is about the
9 formula, not about the ultimate matters.

10 MR. MORIN: It's about the inputs to the formula
11 and it's really a CAPM, the Capital Asset Pricing Model
12 formula, and it's indexed, the rate of return is indexed
13 interest rates.

14 COMMISSIONER KONDO: Have you ever served as an
15 expert in a docket in which Mr. Parcell also served as an
16 expert?

17 MR. MORIN: Yes, many, many times Mr. Parcell and I
18 have been involved in rate cases, and we know each other very
19 well.

20 COMMISSIONER KONDO: And can you tell me, roughly,
21 how many times? More than 20?

22 MR. MORIN: Somewhere around that neighborhood, I
23 would say.

24 COMMISSIONER KONDO: And that would be in
25 jurisdictions in Hawaii as well as outside Florida?

1 MR. MORIN: Yes.

2 COMMISSIONER KONDO: In any of those times when
3 both of you appeared as consultants I'm assuming that when you
4 appeared as consultants with Mr. Parcell you were on different
5 sides; is that correct?

6 MR. MORIN: Yes.

7 COMMISSIONER KONDO: In any of those times was the
8 ROE contested?

9 MR. MORIN: What do you mean by "contested?"

10 COMMISSIONER KONDO: I guess what I'm -- but my
11 question is really trying to understand if in any of the
12 instances besides this case where you and Mr. Parcell appeared
13 as consultants whether or not any of those cases, the ROE
14 issue, went to a hearing?

15 MR. MORIN: Yes, most of the time it did. Quite a
16 few of our cases however were settled too.

17 COMMISSIONER KONDO: In the times when the ROE
18 issue went to a hearing, did the commission -- did those
19 commissions always accept your recommendation?

20 MR. MORIN: No.

21 COMMISSIONER KONDO: Sometimes they accepted
22 Mr. Parcell's recommendation?

23 MR. MORIN: Well, it's difficult to say.
24 Regulators and rate orders are reluctant to devolve the
25 details of how they arrived at its specific ROE decision, so

1 they will not be explicit as to say, well, we believe, you
2 know, Dr. Morin or we believe Mr. Parcell. It's not that
3 clear nor should it be. I don't think a commission should
4 back itself into a corner and explain in details how they
5 arrived at a particular decision; so, it's difficult for me to
6 answer the question.

7 COMMISSIONER KONDO: In the cases where the ROE
8 issue was contested, I'm assuming that you had a ROE number
9 that was different from that proposed by Mr. Parcell.
10 Correct?

11 MR. MORIN: That's correct.

12 COMMISSIONER KONDO: Are there times when the
13 commission accepted the number that Mr. Parcell proposed?

14 MR. MORIN: Again, that's very difficult to answer
15 because it's not explicit in the rate order.

16 COMMISSIONER KONDO: I'm not asking for the
17 reasoning, Dr. Morin. I'm just asking for the number.

18 MR. MORIN: Well, it's difficulty also because
19 Mr. Parcell typically comes up with a range in ROE, whereas
20 the order specifies a single point estimate. That's why I'm a
21 little bit reluctant to answer the question. But I recall in
22 Nevada, I think, the top of his range was accepted by the
23 Nevada Commission, which also coincided with the staff ROE
24 recommendation of 10.6 or 10.7 percent, if I recall.

25 COMMISSIONER KONDO: Has there ever been an

1 instance in the cases that you've been involved with, with
2 Mr. Parcell where the ranges that you proposed and the ranges
3 that Mr. Parcell proposed did not overlap just like in this
4 case?

5 MR. MORIN: It's unusual that our ranges overlap.
6 Usually my bottom is his top.

7 COMMISSIONER KONDO: Do you recall a contested ROE
8 issued in another jurisdiction where your ranges did not
9 overlap?

10 MR. MORIN: Yes, I do.

11 COMMISSIONER KONDO: How many instances?

12 MR. MORIN: Oh, it's hard to say. Three to four
13 times.

14 COMMISSIONER KONDO: In those three or four times,
15 did the commission accept an ROE or did the commission's order
16 implement or adopt an ROE that was in Mr. Parcell's range?

17 MR. MORIN: It happens frequently.

18 COMMISSIONER KONDO: Did it happen in those three
19 or four instances that you recall?

20 MR. MORIN: Yes, I believe it did.

21 COMMISSIONER KONDO: In all of them, one of them,
22 two of them, if you can --

23 MR. MORIN: I cannot recall that.

24 COMMISSIONER KONDO: Have you ever served as an
25 expert in a case involving where Mr. Hill also served as an

1 expert?

2 MR. MORIN: Many times, yes.

3 COMMISSIONER KONDO: More than 20?

4 MR. MORIN: No, probably about the same amount.

5 COMMISSIONER KONDO: About 20?

6 MR. MORIN: Yes, about -- maybe 15.

7 COMMISSIONER KONDO: So a little less than the
8 times that you've --

9 MR. MORIN: Yeah.

10 COMMISSIONER KONDO: -- seen Mr. Parcell?

11 MR. MORIN: Mr. Parcell is older than Mr. Hill so
12 he's been in many more cases.

13 (Laughter.)

14 COMMISSIONER KONDO: I learned that yesterday from
15 Mr. Parcell's comment.

16 MR. MORIN: So it's a question of longevity here,
17 so I would say 10 to 15.

18 COMMISSIONER KONDO: And, unfortunately, Mr. Hill
19 is not here, so I'm going to ask you, What is your
20 professional opinion regarding Mr. Hill?

21 MR. MORIN: I have the utmost respect for Mr. Hill
22 as an expert witness. I have some serious disagreements with
23 his estimates and his approach but so be it. You're putting
24 me on the spot there asking a question like that.

25 (Laughter.)

1 MR. MORIN: We have professional disagreements,
2 let's just leave it at that, and I think they are articulated
3 in my rebuttal.

4 COMMISSIONER KONDO: In the cases involving or
5 where Mr. Hill was also an expert, I'm assuming that's just
6 like the cases involving Mr. Parcell that you were
7 representing different parties?

8 MR. MORIN: Yes.

9 COMMISSIONER KONDO: In any of those cases, do you
10 recall the ROE issue going to a hearing?

11 MR. MORIN: Yes, most of the time.

12 COMMISSIONER KONDO: In the instances where
13 Mr. Hill and you proposed different ranges of ROE, do you
14 recall any other times when your ranges did not overlap?

15 MR. MORIN: Our ranges have never overlapped.

16 COMMISSIONER KONDO: Do you recall any instance
17 where the commission approved an ROE number that was in
18 Mr. Hill's range?

19 MR. MORIN: No, I do not.

20 COMMISSIONER KONDO: Your testimony is based upon
21 your recollection that no commission has adopted an ROE within
22 Mr. Hill's range at least with respect to the cases that
23 you've been involved with Mr. Hill?

24 MR. MORIN: That's correct, sir.

25 COMMISSIONER KONDO: I'm going to switch gears a

1 little here, but yesterday you made a comment and I wasn't
2 sure if I understood. I heard you to say that the Company
3 must raise \$1.8 billion over the next -- and I didn't
4 understand or I missed the number of years.

5 Do you recall saying that?

6 MR. MORIN: Yes, sir, I do. It's five years.

7 COMMISSIONER KONDO: What's your basis for the
8 understanding that the Company must raise \$1.8 billion over
9 the next five years?

10 MR. WILLIAMS: Mr. Commissioner -- Mr. Chairman,
11 just so we're clear, that was a consolidated number, and he
12 made it clear in his testimony that was a consolidated number.

13 COMMISSIONER KONDO: Okay, thank you for the
14 clarification.

15 What the basis for your understanding of the need
16 to raise \$1.8 billion over the next five years?

17 MR. MORIN: One of my chief concerns, as an expert
18 witness, is what I call construction risks; in other words, to
19 what extent will a given utility have to resort to external
20 financing.

21 In such a case, of course, the ROE becomes a very
22 important factor; so, I always ask the CFO for a CAPX
23 projections, capital expenditure projection program for the
24 next five years, because I need a sense of how much recourse
25 to financial market, what this Company would require. In this

1 case, it's quite a bit.

2 So from the \$1.8 billion, one can assume that
3 roughly half of that or roughly \$900 million will be financed
4 through new debt issues. And it's very important to answer
5 the following question: Will those incremental debt issues be
6 financed as a BBB company or a BB company or BWA1 or BWA2 or
7 BWA3 company; in which case, of course, the cost of the rate
8 fares would play different and so will the cost of equity.

9 So the point that I'm trying to make here is that
10 construction risk is a huge element of risk in determining the
11 ROE. A company that its sell sufficient, for example, a
12 company where internal financing or retained earnings are
13 sufficient to finance its construction budget, it's not so
14 much concern with access to capital markets at reasonable
15 costs. It doesn't need external financing; but, that is
16 certainly not the case with the HECO with this very, very
17 ambitious capital program that has to be financed in the next
18 five years.

19 COMMISSIONER KONDO: For a company the size of the
20 HECO companies, and I'm talking in a consolidated basis, is
21 \$1.8 billion in future capital expenditures, is that average,
22 is that above average, is that below average, do you have an
23 understanding of that?

24 MR. MORIN: I think it's above average.

25 (Whereupon, Mr. Morin was briefly confers with

1 Mr. Williams.)

2 MR. WILLIAMS: Excuse me.

3 MR. MORIN: I was asking to see what is the amount
4 of equity in the balance sheet. I believe the equity on the
5 balance sheet of HECO was somewhere around \$1.1 billion, if my
6 memory serves me right, and a lot of that \$1.8 billion will be
7 utilized by HECO; so, what we're talking about doubling, in a
8 sense, your equity base.

9 So in the quick answer to your question, it's huge.
10 The new financing is a proportion of your size of your rate
11 base or the equity part of your rate base is enormous; so,
12 that is a bit unusual.

13 COMMISSIONER KONDO: So do I understand you to say
14 that at the end of five years, assuming that the Company
15 actually spends 1.8 billion, as you were talking about, that
16 the consolidated rate base will be approximately doubled than
17 what it is today?

18 MR. MORIN: Yes, sir, that's correct.

19 COMMISSIONER KONDO: What is the Company building
20 for the \$1.8 billion, as far as you understand?

21 MR. MORIN: Aging infrastructure, improvements,
22 transmission distribution improvements; probably, additions to
23 rate base, more generating capacity; and, of course, the
24 requirements of the RPS. I think Ms. Sekimura can answer that
25 much more in details than I can.

1 COMMISSIONER KONDO: Do you have a specific
2 understanding of what the Company intends to build with the
3 1.8 or are you just -- or I don't want you to think that I'm
4 using this word disrespectfully, but just guessing?

5 MR. MORIN: Well, I'm not guessing. The capital
6 budget is \$1.8 billion.

7 COMMISSIONER KONDO: So I'm asking you, Do you
8 understand what they intend to spend the \$1.8 billion on?

9 MR. MORIN: I do not know the details of that 1.8.

10 COMMISSIONER KONDO: So what you just explained to
11 me as to the infrastructure you expect them to build with the
12 1.8, that's just your guess?

13 MR. MORIN: That's my estimate.

14 COMMISSIONER KONDO: Well, when you say "estimate,"
15 do have an understanding specifically as to that being the
16 infrastructure that the Company intends to build?

17 MR. MORIN: Yes, that's my guess.

18 COMMISSIONER KONDO: Okay, I think that we're not
19 on the same page here because your answer was that's my guess,
20 but my question was, Do you have a specific understanding as
21 to the infrastructure that the Company intends to build at the
22 \$1.8 billion?

23 MR. MORIN: No, I do not.

24 COMMISSIONER KONDO: As far as you know, does the
25 \$1.8 billion include the interisland cable?

1 MR. MORIN: I don't know that.

2 COMMISSIONER KONDO: And where did you get that
3 1.8-billion-dollar figure from?

4 MR. MORIN: From the CFO of the Company.

5 COMMISSIONER KONDO: And that would be
6 Ms. Sekimura --

7 MR. MORIN: Ms. Sekimura.

8 COMMISSIONER KONDO: -- is that correct?

9 MR. MORIN: Yes, that's correct.

10 COMMISSIONER KONDO: I'm going to switch gears and
11 talk to you a little bit about your adjustment for decoupling.

12 In Exhibit 7 which was handed to the Commission
13 yesterday -- I'm sorry, HECO Exhibit 7.

14 MR. MORIN: I have it.

15 COMMISSIONER KONDO: Okay. The second sentence
16 from the bottom you state --

17 MR. MORIN: On what page?

18 COMMISSIONER KONDO: I'm sorry, on page 1 of 18.

19 MR. MORIN: I have it.

20 COMMISSIONER KONDO: The second sentence from the
21 bottom you state, and I quote, If the RDM-Rider mechanisms are
22 approved by the commission, the Company's risk is reduced, and
23 the cost of common equity capital declines by some 25 basis
24 points.

25 Do you see that?

1 MR. MORIN: Yes.

2 COMMISSIONER KONDO: RDM stands for Revenue
3 Decoupling Mechanism; is that correct?

4 MR. MORIN: Correct.

5 COMMISSIONER KONDO: What are the rider mechanisms
6 that's you're referring to?

7 MR. MORIN: These are the new energy infrastructure
8 investments.

9 COMMISSIONER KONDO: Could you explain that a
10 little more?

11 MR. MORIN: I am not the expert on the details of
12 those trackers other than what they're designed to do.

13 COMMISSIONER KONDO: What is your understanding of
14 the specific trackers that you're referring to when you use
15 the term "rider mechanisms"?

16 MR. MORIN: One of the riders is to capture any
17 costs associated with energy-related investments over time.

18 COMMISSIONER KONDO: Any other riders that you are
19 including in that phrase?

20 MR. MORIN: Yeah, I'm referring to the Renewable
21 Energy Infrastructure, REI surcharge, which is basically
22 designed to recover the costs of Renewable Energy
23 Infrastructure projects. I think it's called the REIP/CER
24 surcharge. So that's part of the riding mechanisms here.

25 This phrase "RDM/Rider" was designed to capture and

1 package risk mitigating mechanisms that the Company and the
2 Consumer Advocate have designed together and I've put before
3 this Commission.

4 COMMISSIONER KONDO: Could you tell me your
5 understanding of what package includes?

6 MR. MORIN: Well, it includes the revenue
7 decoupling mechanism, the revenue adjustment or balancing
8 mechanism, or known as RBA; and, also the REIP surcharge and
9 the fuel costs.

10 COMMISSIONER KONDO: Also, in Exhibit 7, the same
11 page, page 1 of 18, the third sentence in your answer that
12 starts in the middle of the page starting with the sentence --
13 starting, "From these results, I conclude that an ROE in a
14 range of 10.75 percent to 11.00 percent is reasonable."

15 Do you see that?

16 MR. MORIN: Yes, sir.

17 COMMISSIONER KONDO: I understand that statement to
18 mean that assuming no decoupling, meaning business as usual,
19 your opinion is the appropriate REO is between seven -- I'm
20 sorry, 10.75 percent to 11.0 percent; is that correct?

21 MR. MORIN: It would be the top of the range.

22 COMMISSIONER KONDO: Assuming business as usual?

23 MR. MORIN: Correct; and, if the various mechanisms
24 are endorsed by the Commission would lower the risks and my
25 recommendation would be 10.75.

1 COMMISSIONER KONDO: Could you help me understand
2 that conclusion that you or that statement you made about it
3 would be at the top part of the range; and, the reason why I'm
4 struggling to understand that is because your sentence says,
5 "I conclude that an ROE in a range of 10.75 to 11.0 percent is
6 reasonable."

7 So from that statement, it would be my impression
8 that if I select any number within that range, your conclusion
9 would be that that number is reasonable because it's a range.

10 Could you help me understand why that doesn't
11 appear to be your position?

12 MR. MORIN: Well, if you read further down the
13 paragraph, if the mechanisms are approved, the Company's risk
14 is reduced and the cost of capital would decline towards the
15 bottom of the range.

16 COMMISSIONER KONDO: I don't want to read down
17 further yet, Dr. Morin. I guess I'm still stuck on that
18 question in that sentence because you provided the Commission
19 with an opinion as to the appropriate ROE and providing that
20 in a range, 10.75 percent to 11 percent.

21 So my question is, Isn't it reasonable if the
22 Commission were to select any number within that range?

23 MR. MORIN: Yes, it would be reasonable, but I
24 would go a little bitt further than that and urge the
25 Commission to select the bottom of the range with the RDMs and

1 so forth in the top of the range would count, but any number
2 in the range by definition is reasonable.

3 COMMISSIONER KONDO: Okay, that was my question.

4 So, in other words, if business as usual, assume no
5 decoupling and no other mechanisms, if the Commission were to
6 decide that the appropriate ROE is 10.75, you would find that
7 to be reasonable. Correct?

8 MR. MORIN: I would find that that's be very, very
9 periphery of reasonableness.

10 COMMISSIONER KONDO: But still reasonable.
11 Correct?

12 MR. MORIN: At a very minimum degree of
13 reasonableness.

14 COMMISSIONER KONDO: But it's still reasonable?

15 MR. MORIN: I've given you my answer.

16 COMMISSIONER KONDO: I have a question about -- and
17 this is jumping a little away from this -- in response to
18 CA-RIR-15 you had noted that the average allowed ROE for
19 electric utilities for the first quarter of 2009 was
20 10.29 percent.

21 Do you recall that?

22 And if you want to look at the RIR, you're welcome
23 to, but I was just asking you for a foundation if you recall
24 that number.

25 MR. MORIN: I'm looking at PUC-IR-115?

1 COMMISSIONER KONDO: No, I'm sorry. It's
2 CA-RIR-15.

3 MR. MORIN: Yes, I have it.

4 COMMISSIONER KONDO: Has the average allowed ROE
5 changed since the first quarter of 2009?

6 MR. MORIN: Yes, it has. There was a document
7 yesterday. I was offered a Hearing Exhibit by the DOD. I've
8 forgotten the number now. It's the most recent edition of the
9 document that we're referring to in CA-RIR-15.

10 COMMISSIONER KONDO: Can you show me the document
11 so that maybe I can describe it?

12 MR. MORIN: It a document Entitled Regulatory
13 Research Associates Regulatory focus. It's DOD Exhibit 3
14 anyway.

15 COMMISSIONER KONDO: Okay, thank you. The three
16 pages of DOD Exhibit 3?

17 MR. MORIN: Right. And that document covers all
18 the rate cases, at least up until September, and the average
19 allowed ROE is -- the median ROE allowed is 10.50, according
20 to this document; but, one has to be careful that this
21 document includes allowed ROEs for both wires companies; that
22 is, companies with only transmission and distribution, as well
23 as vertically integrated utilities.

24 If you distill from this document the T&D
25 decisions, the average allowed ROE is closer 10.7; and, I

1 think, yesterday, during cross-examination, I've added three
2 or four more recent cases that do not appear on this document,
3 that showed that -- elaborates that returns are venturing
4 towards the 10.68, 10.7 percent; so, there's been an upward
5 trend in allowed ROEs.

6 COMMISSIONER KONDO: Okay, thank you.

7 I believe you've testified that if the Commission
8 were to adopt decoupling and the other mechanisms that you
9 listed -- and, I guess, I'll just call them the RDM/Rider
10 mechanisms -- that your opinion is that the appropriate
11 reduction in ROE is 25 basis points. Correct?

12 MR. MORIN: Yes, sir.

13 COMMISSIONER KONDO: If your opinion is that if the
14 Commission approves these mechanisms, the 25 basis points is
15 the appropriate reduction, why would it or would it be
16 appropriate for the Commission to shift your range that you
17 provided of 10.75 to 11.0 percent shifted 25 basis points
18 down?

19 Do you understand my question?

20 MR. MORIN: Yeah, you could do that.

21 COMMISSIONER KONDO: So if the Commission --

22 MR. MORIN: In other words, the range becomes 10.5
23 to 10.75.

24 COMMISSIONER KONDO: Correct. And that would be
25 appropriate under your analysis. Correct?

1 MR. MORIN: It would be on the very, very edge of
2 reasonableness.

3 COMMISSIONER KONDO: But it would be appropriate
4 under your analysis for the Commission to shift that range
5 based upon your conclusion that the 25-basis-point reduction
6 would be appropriate if the Commission were to approve
7 decoupling?

8 MR. MORIN: Well, what you're doing is you're
9 taking the very bottom of my range and reducing the very
10 bottom of the range by 25 basis points to get at the very
11 bottom of a reasonable range; and, I guess, as a matter of
12 logic, I agree with that.

13 COMMISSIONER KONDO: But, again, you'd agree that
14 if the Commission did that in the range mood to 10.5 to 10.75
15 percent, that if the Commission were to adopt an ROE of 10.5,
16 it would be what you would consider to be reasonable?

17 MR. MORIN: I would be happy with that.

18 COMMISSIONER KONDO: If you would be happy with
19 that, why is your testimony not recommending a 10.5 ROE?

20 MR. MORIN: Because all of the results of my
21 testing indicate a range of 10.75 to 11, and I think the RDM
22 and riders is worth 25 basis points; so, I recommended the
23 bottom of the range.

24 COMMISSIONER KONDO: Well, why would 10.5 make you
25 happy?

1 MR. MORIN: Well, you know, you people have to
2 decide the political implications and so on when you're
3 deciding on rate of return and there may be other factors that
4 you're weighing in that may justify a lower ROE, give and take
5 on other parts of the case; and, so I'm just being realistic
6 here.

7 COMMISSIONER KONDO: What is the lowest number that
8 would make you happy, given all those other considerations
9 that you just mentioned?

10 MR. MORIN: I would be absolutely elated with 10.75
11 and not as happy with 10.5.

12 COMMISSIONER KONDO: What is the lowest number that
13 you would be, quote, happy with, given the other
14 considerations that you mentioned, the political
15 considerations, the other Commission decisions that are on the
16 Commission's plate?

17 MR. MORIN: Well, the very bottom of my happiness
18 thermometer would be 10.5, at the very bottom; and, I'm not
19 sure that would be enough to propel the bond ratings upwards
20 at least eliminate the negative outlook that would be the
21 extreme bottom of my happiness.

22 COMMISSIONER KONDO: Have you spoken to anyone in
23 the bond rating market about whether or not the Company's bond
24 rating will change depending on the different ROEs that the
25 Commission may adopt?

1 MR. MORIN: No, I have not specifically. Just
2 based on past experiences when companies have negative
3 outlooks and how long it takes, what is the probability of a
4 downgrade and how long does it take to come back; and, usually
5 when there's a negative outlook, there's a very significant
6 probability of a downgrade, and then the return back to being
7 upgraded again is a very long and arduous road.

8 COMMISSIONER KONDO: But you haven't spoken in the
9 market specifically about the Hawaiian Electric Company and
10 specifically about HECO; is that correct?

11 MR. MORIN: That's correct. Mr. Fetter would be,
12 as a bond rating person, able to answer that question better.

13 COMMISSIONER KONDO: Well, you made the statement,
14 so I was just trying to understand --

15 MR. MORIN: Yeah.

16 COMMISSIONER KONDO: -- the basis for your comment.

17 But your position is that or your response is you
18 haven't spoken to anyone specifically about HECO. Correct?

19 MR. MORIN: That's correct.

20 COMMISSIONER KONDO: I want to get a better
21 understanding of your 25-basis-points reduction.

22 What is that 25 number? What is that based on?

23 MR. MORIN: Where is it coming from?

24 COMMISSIONER KONDO: Yeah. How do you arrive at
25 the 25?

1 MR. MORIN: I looked at several benchmarks. One of
2 them is the spreads, the yield spreads or return spreads
3 between bonds rated BBB and bonds rated A. And, right now,
4 it's roughly about 60 basis points, so a one-notch upgrade,
5 assuming, for example, that the mechanisms are approved, one
6 way to gauge the impact of that is to say, Well, that's
7 one-notch upgrade from BBB to a single A, so you're a third of
8 the way up from BBB to single A, so a third of 60 basis points
9 is 20 basis points; so, that's one benchmark.

10 Another benchmark is I've looked at the allowed
11 ROEs for companies that have decoupling versus the ones that
12 do not have decoupling, and there's an exhibit to that effect,
13 which was discussed yesterday in my cross by the DOD and that
14 was --

15 COMMISSIONER KONDO: I'm sorry, is that page 18 of
16 18 of Exhibit -- HECO Exhibit 7?

17 MR. MORIN: Yes.

18 COMMISSIONER KONDO: I don't mean to interrupt you,
19 but I just want to make sure I understand what you're
20 referring to?

21 MR. MORIN: Yes, I think it is.

22 COMMISSIONER KONDO: I'm sorry?

23 CHAIRMAN CALIBOSO: Could you use the microphone a
24 little more?

25 MR. WILLIAMS: To make sure we're on the same --

1 CHAIRMAN CALIBOSO: Dr. Morin, could you use the
2 microphone a little more?

3 MR. MORIN: Page 18, correct.

4 COMMISSIONER KONDO: And I apologize for
5 interrupting you.

6 MR. MORIN: No, that's fine.

7 And that indicated 10 basis points of difference
8 between the allowed ROEs of companies with versus without
9 making such mechanisms. And at No. 3 I've looked at the
10 differences in betas between natural gas distributors versus
11 electric utility companies, and the reason I looked at that is
12 because natural gas utilities virtually all of them have
13 decoupling mechanisms. It's pretty standard policy in the gas
14 business, and the difference in betas between electrics and
15 gas distributors is approximately .3 -- .03.

16 In other words, utilities, electric utilities, have
17 betas of approximately .7 and natural gas distributors have
18 betas of approximately .67, so there's a difference of .03,
19 and you can use the CAPM formula to translate that into a
20 return differential. So if you multiply .03 by the market
21 risk premium of, let's 7 percent, you get about 21 basis
22 points. So that was my second benchmark.

23 The fourth benchmark that I relied upon is, I said,
24 well, let's suppose that as a result of the adoption of these
25 risk-reducing mechanisms, the beta of HECO, if it had one,

1 will be reduced by .05 looking at the spread of betas in the
2 business; and, again, that's translates into approximately
3 35-basis points.

4 So I looked at all of that evidence, those four
5 benchmarks, and concluded that 25 basis points was pretty
6 reasonable.

7 COMMISSIONER KONDO: Would you agree with me that
8 we are treading in relatively uncharted water with respect
9 to the appropriate ROE adjustment associated with a decoupling
10 mechanism?

11 MR. MORIN: Not really. Decoupling mechanisms are
12 pretty common, at least in the gas business, and they're
13 increasingly common in the electric utility business; so, it's
14 not totally uncharted waters. We have some evidence and, in
15 fact, I just pointed out a minute ago the difference in a lot
16 of ROEs between utilities with and without decoupling; so, you
17 do have some benchmarks, some evidence.

18 COMMISSIONER KONDO: On page 6 of your original
19 testimony -- I think it's T-19.

20 MR. MORIN: I have it.

21 COMMISSIONER KONDO: -- you make a statement in the
22 last sentence of the top paragraph. Ultimately to ensure that
23 HECO has access to capital markets for its capital needs, a
24 fair and reasonable authorized rate of return on common equity
25 capital of 11.25 percent is required.

1 Do you see that?

2 MR. MORIN: Were yes, sir.

3 COMMISSIONER KONDO: I'm assuming that when you say
4 interact as to capital markets that you're saying ensure
5 access to capital markets at reasonable rates. Correct?

6 MR. MORIN: Yes, I am.

7 COMMISSIONER KONDO: And I'm also assuming that the
8 11.25 in there is now replaced by your current range of 10.75
9 to 11.0 percent. Correct?

10 MR. MORIN: That's correct. In other words, for
11 the Company to have access to capital, it's got to offer a
12 competitive rate of return that is commensurate with
13 alternative investments are offering.

14 COMMISSIONER KONDO: Now with the substitution of
15 those ROE numbers, with your current ROE numbers, your range,
16 is the sentence still -- does the sentence still accurately
17 reflect your opinion?

18 MR. MORIN: Yes, it does.

19 COMMISSIONER KONDO: And the reason why I ask that
20 it because it seems to me that that term "is required" are
21 relatively strong words.

22 So assuming no decoupling, are you saying that
23 anything less than the range that you've proposed as being
24 reasonable 10.75 to 11.0 percent that HECO will not be able to
25 raise capital at reasonable costs?

1 MR. MORIN: It's not so much whether it would raise
2 capital or not but at what costs. If comparable utilities
3 are -- have allowed rates of return, on average, 10.7, then
4 you don't. It's going -- you're going to have difficulty
5 accessing capital markets. You're competing with one hand
6 behind your back in a sense.

7 COMMISSIONER KONDO: So is it your opinion that, if
8 assuming no decoupling, that unless the Commission authorizes
9 an ROE within the range that you have proposed that HECO will
10 not be able to access or raise capital at reasonable costs, is
11 that your opinion?

12 Is that what that sentence is telling me?

13 MR. MORIN: That's correct. It's going to have
14 difficulty raising capital.

15 COMMISSIONER KONDO: Have you spoken to anyone in
16 the financial market to support that opinion?

17 MR. MORIN: It's my own professional experience and
18 knowledge of 30 years in the business.

19 COMMISSIONER KONDO: If the Commission approved an
20 ROE of 10.5 percent, which as we talked about before, would be
21 at the lower end of the range, assuming decoupling and the
22 other mechanisms, would it still be your opinion that the HECO
23 Company will not be able to raise capital at a reasonable
24 cost?

25 MR. MORIN: No. I think, in that circumstance, it

1 would be capable of doing so. It would also increase the
2 probability of erasing that negative outlook.

3 COMMISSIONER KONDO: Okay. I'm a little confused,
4 Dr. Morin, because we went through the exercises in your range
5 of 10.75 to 11 percent, and I understood your opinion to be if
6 the Commission issued or approved an ROE that was outside of
7 that range, below that range, that the Company's ability to
8 raise capital at reasonable rates would be jeopardized, is
9 that what I understood you to say?

10 MR. MORIN: That's correct.

11 COMMISSIONER KONDO: Then I used the figure of
12 10.5 percent, assuming decoupling, which is also in your
13 range, and you're still -- it's now your opinion that, at that
14 number, the Company will be -- will have access to capital and
15 reasonable costs.

16 Could you explain to me what the difference is or
17 why those two sets or opinions seem to be inconsistent to me?

18 MR. MORIN: Well, they're totally consistent.
19 Earlier we mentioned the range is 10.75 to 11, 10.75 with
20 revenue decoupling. And under circumstances, depending on the
21 entire complexion of the entire order, the 10.5 percent
22 couldn't make sense depending on what happens on other pieces
23 of the order.

24 So it could still raise capital of 10.5 assuming
25 that, for example, that the rate base is handled properly or

1 that certain costs are recovered in a timely fashion, so it's
2 all of these factors that play into this. So 10.5 with
3 everything else being reasonable in the order, I think the
4 Company could raise money.

5 COMMISSIONER KONDO: Are you aware of any problems
6 that HECO has experienced in accessing the capital markets
7 currently?

8 MR. MORIN: Well, it's on negative outlook by two
9 bond rating agencies so that's not a very good sign in terms
10 of access to capital markets in the near-term future.

11 COMMISSIONER KONDO: Are you aware of any problems
12 that HECO has experienced in accessing the capital markets
13 currently?

14 MR. MORIN: I'm not aware of any problems right
15 now, but I think the CFO could answer that question better
16 than I.

17 COMMISSIONER KONDO: I want to switch gears and
18 talk about your risk premium for a second. I was uncertain
19 from your discussion yesterday with the Chairman and with the
20 other folks in this room as to whether or not you continue to
21 believed that an adjustment is necessary to account for the --
22 for what you consider to be above average risk base by HECO
23 relative to the industry.

24 Do you still believe that a risk premium is
25 necessary?

1 MR. MORIN: Not with the approval of all the
2 mechanisms we've been discussing prior to, let's say, 2009.
3 Before we contemplated all these risk mitigating mechanisms,
4 it was my opinion that the Company was riskier than average on
5 account of its small size and also on the count of its high
6 debt ratio when one includes that that equivalence, but that
7 would be the variety of risk mitigating mechanisms that are
8 contemplated, I think. They are reducing the risks of the
9 Company to one that has probably average risks and maybe even
10 slightly below, depending on what happens in this rate order.

11 COMMISSIONER KONDO: And assuming no decoupling
12 would it be -- do I understand you to -- that is your position
13 to be that the risk premium is appropriate to continue to add?

14 MR. MORIN: I believe so. The Company would look
15 the same as it did prior to 2008 when these mechanisms were
16 contemplated.

17 COMMISSIONER KONDO: What if the Commission does
18 not approve decoupling but approves the other rider mechanisms
19 that you described, would that change your opinion as to the
20 need for the risk premium?

21 MR. MORIN: You'd have to be more specific about
22 which pieces that we're going to delete or cut or -- I view
23 the RDM/Rider mechanisms as a package deal that's worth about
24 25 basis points.

25 COMMISSIONER KONDO: We can work off your list,

1 Doctor. I think you told me that there was decoupling and you
2 mentioned an RBA, REIP, and ECAP mechanism.

3 So if I remove decoupling, which also would also
4 remove the RBA, that would leave me with the REIB at ECAC.

5 MR. MORIN: Well, ECAC is not an issue here because
6 that's pretty standard policy in the industry; so, I can take
7 that one out basically, and we're left with the other three.

8 COMMISSIONER KONDO: What three?

9 MR. MORIN: Well, the RDM, and the balancing, and
10 the infrastructure surcharge.

11 COMMISSIONER KONDO: And it's my --

12 MR. MORIN: And it's difficult to take the 25 basis
13 points and begin to split hairs in a sense. One could argue
14 that, you know, 10 basis points for each one or something like
15 that, but it's extremely difficult to split hairs in a sense.

16 We don't have any data that that's specific and
17 that refined to define the impact of one specific mechanism to
18 the detriment of the others; so, 25 basis points was, sort of,
19 a package deal premium.

20 COMMISSIONER KONDO: Don't get me wrong because I
21 understand the challenge of splitting the hairs; but, in your
22 professional opinion, based upon your experience, if the
23 Commission did not approve decoupling but approved an REIP or
24 REIS mechanism, Renewable Energy Infrastructure Surcharge
25 mechanism, what would that do with respect to your risk

1 premium?

2 MR. MORIN: Probably, reduce it by half.

3 COMMISSIONER KONDO: In this docket, the company
4 has proposed a Purchase Power Adjustment Clause.

5 Are you familiar with that?

6 MR. MORIN: Yes, I am, sir.

7 COMMISSIONER KONDO: Could you describe to me what
8 your understanding of that clause is?

9 MR. MORIN: Well, it's basically an automatic pass
10 on to ratepayers of any charges associated with fuel and the
11 purchase power contracts and it avoids the necessity of having
12 the rate cases whenever we have, you know, volatile fuel
13 prices that are changing over time. It's automatically
14 embedded into the rates because it's exogenous with the
15 Company. It's not under their control and sort of a
16 mainstream policy in the industry.

17 COMMISSIONER KONDO: You understand that currently
18 the Company does not have a Purchase Power Adjustment Clause.
19 Correct?

20 I'm going to call it PPAC, okay.

21 MR. MORIN: That's correct.

22 COMMISSIONER KONDO: You do understand they don't
23 have that currently?

24 MR. MORIN: Right, they have an EEAC.

25 COMMISSIONER KONDO: What is your understanding as

1 to whether or not any purchase energy charges or passthrough
2 any surcharges currently?

3 MR. MORIN: I cannot answer that question. I don't
4 know the details of the costs.

5 COMMISSIONER KONDO: Since you don't know the
6 details of the clause, would it be unfair for me to ask you if
7 the Commission were to deny decoupling but approved the PPAC
8 what that would do to your risk premium?

9 MR. MORIN: Again, not very much because fuel
10 adjustment clauses and purchase power clauses are, again,
11 fairly common in the industry, and the sample of companies
12 that use both samples, that's already reflected in the data,
13 so to speak, so I'm not sure one could quantify that.

14 COMMISSIONER KONDO: Well, currently, there's no
15 PPAC that the Company has. So I'm assuming that because
16 you're telling me or what I understand you to be saying is
17 that its common mechanisms in the industry and the Company
18 currently doesn't have that that that would add additional
19 risks to the Company by making the Company consistent with the
20 industry by approving a PPAC, doesn't that change your risk
21 premium?

22 MR. MORIN: Yeah, probably, it would be one-third
23 of the 25 basis points, something of that order of magnitude;
24 but, again, it's hard to split hairs.

25 COMMISSIONER KONDO: I understand the challenge.

1 So if we approve the PPAC and we approve the REIS
2 but do not approve decoupling, we would be reducing your
3 25 basis points risked premium by 12 plus one-third?

4 MR. MORIN: Correct.

5 COMMISSIONER KONDO: By 19 --

6 MR. MORIN: By 19 --

7 COMMISSIONER KONDO: -- points to 20 points --

8 MR. MORIN: Somewhere --

9 COMMISSIONER KONDO: -- correct?

10 MR. MORIN: Yeah, that order of magnitude.

11 COMMISSIONER KONDO: I know that you've talked both
12 in your written testimony as well as orally about the two
13 factors that you considered to be important or what made the
14 risk premium appropriate, the size of the Company, as well as
15 the dependence on purchase power. Correct?

16 MR. MORIN: Yes, sir.

17 COMMISSIONER KONDO: Are there any other factors
18 that you include to justify the risk premium?

19 MR. MORIN: Yes, the very ambitious requirements
20 that are being posed by the RPS requirements for over the next
21 10, 15, 20 years, all the way up to 40 percent, that poses a
22 huge challenge for uncharted waters in this area. I was
23 just thinking about the operating risk.

24 How do you integrate our RPS and removable energy
25 systems that are intermittent with the rest of the network and

1 what about the third parties; and, if, for example, the IPPs
2 are any indication, in past experiences, I'm not sure about
3 the feasibility or the risk involved in the third parties
4 involvement, so there's all these operating risks and these
5 engineering-type risk associated with the RPS, let alone the
6 financing requirements that will be forthcoming in the next
7 10, 15, 20 years; so I would certainly add that to the list.
8 Let's call it construction or operating risks.

9 COMMISSIONER KONDO: Why didn't you list those
10 factors in your testimony?

11 MR. MORIN: It's hard to quantify them and we still
12 don't know the rules of the game yet, so it would be very
13 difficult to quantify.

14 COMMISSIONER KONDO: Well, I'm not asking for a
15 quantification. I'm asking why did you not list those factors
16 as reasons why you believe the risk premium was appropriate in
17 your testimony either orally yesterday or in writing?

18 MR. MORIN: Well, in May 2008, that wasn't really
19 an issue at the time during my direct and the issue has never
20 come up; but, yesterday, I think, I talked about it a little
21 bit.

22 COMMISSIONER KONDO: And when you say it wasn't an
23 issue at the time you did your direct, you're talking about
24 the HCEI, Hawaii Clean Energy Initiative, obligations that the
25 Company has taken on; is that right?

1 MR. MORIN: That's correct.

2 COMMISSIONER KONDO: Okay. What about the RPS?
3 Was that in place at the time that you did your
4 direct testimony?

5 MR. MORIN: It wasn't as clearly defined as it is
6 now and we certainly did not have the 40 percent requirement,
7 if my memory is correct.

8 COMMISSIONER KONDO: The 25 basis points risk
9 premium, that's something that you have articulated in past
10 rate cases, is that correct, for the HECO Company?

11 MR. MORIN: Yeah, I remember I used to rely on 50
12 basis points way, way back, and then it went down to 25 basis
13 points; and, now today, of course, it's the other way around
14 because of all these risks, the RDM and rider mechanisms, so
15 the risk stream has essentially declined over time.

16 COMMISSIONER KONDO: Of the two factors that you
17 spent most of your time talking about HECO's size and the
18 dependence on purchase power, is one more important than the
19 other in terms of the basis for including risk premium?

20 MR. MORIN: Yeah, I think the purchase, that
21 equivalent is a key factor that's in the minds of bond rating
22 agencies when they calculate your effective debt ratios; and,
23 when you do that, the financial metrics of the Company are
24 barely, barely appropriate for a BBB company.

25 So I would think that the purchase power

1 adjustments, the debt ratio, essentially, is a key factor in
2 determining bond rating and cost of debt and, of course, cost
3 of equity.

4 COMMISSIONER KONDO: "A key factor," when you say
5 that, you're saying more important than the size; is that
6 right?

7 Do I understand you to say that?

8 MR. MORIN: I would think so, yes.

9 COMMISSIONER KONDO: Can you tell me a rough
10 percentage, in your mind, as to the value of the two factors
11 in deciding the appropriate risk premium?

12 MR. MORIN: We have a lot of knowledge in finance
13 about the impact of debt ratio on return on financial risks,
14 and the rule of thumb, based on all the literature and the
15 empirical studies that have been done, that every time you've
16 increased the debt ratio by 1 percent, it increases the REO by
17 10 basis points.

18 So if you go from, let's say, 50 percent debt to
19 55 percent debt, there would be 50-basis points increase in
20 financial risks and ROE as perceived by shareholders; so, that
21 one has been pretty well quantified.

22 The size premium is -- there's a big literature on
23 that too, but it's not as important, I don't think, as the
24 debt ratio, unless you're in micro-cap-type-company a very,
25 very, very small company, then the size effect really kicks

1 in.

2 COMMISSIONER KONDO: I'm kind of curious about
3 whether or not you have an understanding of Commission General
4 Order No. 7?

5 MR. MORIN: Which part?

6 COMMISSIONER KONDO: Do you have an understanding
7 what that order is?

8 MR. MORIN: For which part?

9 COMMISSIONER KONDO: Do you even know what is? I
10 mean, just --

11 MR. MORIN: I'm not familiar with any details of
12 the order.

13 Which part?

14 COMMISSIONER KONDO: Do you have an understanding
15 as to the mechanism that requires the Company to seek prior
16 approval of projects above a certain size?

17 MR. MORIN: Yes, I do; and, that's a positive.

18 COMMISSIONER KONDO: Is that an unusual mechanism?

19 MR. MORIN: No, not anymore. It's fairly routine
20 on the mainland for companies that have environmental-related
21 type of capital projects to seek pre-approval; and, it's also
22 becoming mainstream for even non-environmental-related
23 projects for companies to seek approval before they take the
24 risk and go ahead and build it; so that's becoming more and
25 more mainstream.

1 COMMISSIONER KONDO: So the fact that HECO has that
2 requirement does not change your risk premium?

3 MR. MORIN: No, it does not.

4 COMMISSIONER KONDO: I understood your testimony --
5 and I'm going to switch gears here to talk about appearance of
6 risks, but I understood your opinion to be that the
7 appropriate ROE should be commensurate with returns on
8 investments and other similar firms have a corresponding risk.

9 Did I understand that opinion correctly?

10 MR. MORIN: Yes, you did.

11 COMMISSIONER KONDO: Looking at HECO Exhibit No. 7,
12 page 4 of 8. That simply is just a -- simply an update of
13 some of your earlier exhibits; is that correct?

14 MR. MORIN: That's correct.

15 COMMISSIONER KONDO: And that would be the same
16 answer for the next page or maybe the whole set of charts that
17 are attached to HECO Exhibit No. 7; is that correct?

18 MR. MORIN: Yeah, it's an update of prior tests
19 using current capital market data.

20 COMMISSIONER KONDO: Looking at page 4 of 18, I
21 want to get a better understanding as to why you believe these
22 utilities are representative of HECO's risk.

23 Could you explain that to me?

24 MR. MORIN: Well, all the utilities that are on the
25 list are investment grade.

1 Number two, they're all paying dividends.

2 Number three, they're all vertically integrated,
3 that is they have the power generation function.

4 Number four, they are not involved in mergers and
5 acquisitions. And, therefore, they're a universe of companies
6 that present comfortability to an investor at looking at an
7 electric utility. They're in the same industry and they're
8 all regulated and . . .

9 COMMISSIONER KONDO: Do any of the companies listed
10 on page 4, do they have decoupling mechanisms?

11 MR. MORIN: Yes, some of them do. PEPCO holdings
12 and that's Potomac Electric Power.

13 COMMISSIONER KONDO: What number is that?

14 MR. MORIN: At No. 22.

15 COMMISSIONER KONDO: Are you aware of any other?

16 MR. MORIN: Okay. If you look at page 18 of that
17 same document, the last column there entitled decoupling and
18 you'll see Tampa Electric and Idaho Power and Central Hudson,
19 ConEd, those companies had decoupling mechanisms.

20 COMMISSIONER KONDO: Are they included on page 4 of
21 8?

22 MR. MORIN: No, not all of them, no.

23 COMMISSIONER KONDO: So the companies that they
24 used as a representative sample on page 4 of 8, the only one
25 that has decoupling is No. 22, PEPCO Holdings; is that

1 correct?

2 MR. MORIN: Yes, that's correct. But HECO doesn't
3 have it yet so.

4 COMMISSIONER KONDO: If you're comparing companies
5 for the purpose of a representative sample to compare with
6 HECO to determine what the appropriate ROE is, given that HECO
7 does not have decoupling currently, why do you include a
8 utility that has decoupling?

9 MR. MORIN: Because it met all the other five
10 requirements that I outlined earlier; and, it's got -- they
11 all have betas that are within the range of .7, .75. If I
12 were to censor the sample and include all these companies with
13 RDM, my sample would be statistically insignificant and it
14 would not be reliable.

15 In this day and age where we have very volatile
16 capital markets, I think it behooves us to have large samples
17 to increase statistical reliability and then make risk
18 adjustments at the end of day, if the candidate company
19 differs from the universe. That's the approach that I'd like.

20 COMMISSIONER KONDO: How many companies is
21 sufficient to be statistically reliable, in your opinion?

22 MR. MORIN: Well, the central limit theorem would
23 argue somewhere around 15, 20, 25, in that ballpark.

24 COMMISSIONER KONDO: Well, when I was asking you
25 the question previously about whether or not we were

1 charting -- we were embarking on uncharted waters, I thought
2 you had told me that with respect to decoupling there was --
3 it was not a new phenomena and that even in the electric
4 industry there were significant numbers of electric companies
5 that had decoupling mechanisms.

6 Do you recall that?

7 MR. MORIN: Yes, I do.

8 COMMISSIONER KONDO: Are you telling me that that
9 response when the numbers of that response were less than 15
10 in terms of electric utilities that have decoupling
11 mechanisms?

12 MR. MORIN: Yes, I believe that's correct. There's
13 very few companies that have it in operation. There are a lot
14 of pending cases where utilities have asked for decoupling,
15 but one place where it is rampant is the natural gas industry.

16 COMMISSIONER KONDO: Looking just at the electric
17 industry, how many electric utilities, as far as you know,
18 have an approved decoupling mechanism?

19 MR. MORIN: Just a handful.

20 COMMISSIONER KONDO: How many is that?

21 MR. MORIN: I would say five as an approximate
22 number.

23 COMMISSIONER KONDO: Yes, in response to my
24 question about being uncharted, you thought five was
25 significant enough of a number to suggest that this was not so

1 unusual to be looking at how a decoupling mechanism may impact
2 the ROE?

3 MR. MORIN: Well, if you recall, Mr. Commissioner,
4 I had four or five different benchmarks to arrive at the
5 25-basis point. I just did not pin that number in that one
6 observation, that ROEs are 10-basis points difference between
7 utilities with and those without RDMs.

8 COMMISSIONER KONDO: No, that wasn't my question.

9 My question to you had been, Whether you agreed
10 with me that we are embarking on uncharted waters in trying
11 to determine the appropriate ROE that might be associated with
12 the decoupling mechanism?

13 And as I recall your answer, you told me, No, it
14 was not uncharted because there had been a significant
15 number of utilities, including electric utilities that had
16 decoupling mechanisms in place.

17 Do you recall that discussion we had?

18 MR. MORIN: Yeah, sure.

19 COMMISSIONER KONDO: Can you explain to me how that
20 jives with the number five?

21 You're telling me that you understand there to be
22 about five utilities, electric utilities with decoupling; yet,
23 your previous answer was that, We are not embarking on
24 uncharted waters because they're an insignificant electric
25 utilities that had, in fact, decoupling mechanisms.

1 So I'm confused as to how those two answers are
2 consistent.

3 MR. MORIN: Well, it's not unchartered waters
4 because we do have some utilities that have it and some that
5 are pending, so it's not uncharted totally. It's, certainly,
6 not unchartered in the gas business.

7 Now the problem here with censoring the sample to
8 include only those that have decoupling is most of these
9 companies are not vertically integrated. They're all wires
10 companies like PEPCO and ConEd and others and, therefore, I
11 didn't think it was an appropriate comparison to the HECO, who
12 is a vertically integrated utility.

13 COMMISSIONER KONDO: Have you studied the
14 decoupling mechanisms of the five or so electric utilities
15 that you are aware of that have decoupled sales from revenues?

16 MR. MORIN: No, I do not.

17 COMMISSIONER KONDO: And why not?

18 MR. ITOMURA: It's just not part of what I do. I'm
19 not an expert on decoupling mechanisms and all the intricate
20 details and the accounting requirements and the various ways
21 of accomplishing the rate design, that's just not my
22 expertise.

23 COMMISSIONER KONDO: But it isn't important, for
24 your purposes, in deciding or opining as to what the
25 appropriate REO is to understand how other jurisdictions that

1 have approved decoupling how they have handled the ROE?

2 MR. MORIN: Well, that is instructed in itself,
3 yes, but not the differentiate between different kinds of RDMS
4 versus, let's say, other kinds of rate designs. That's just
5 not my expertise.

6 COMMISSIONER KONDO: Do you understand that
7 decoupling can come in many flavors. Correct?

8 MR. MORIN: Yes, it can.

9 COMMISSIONER KONDO: And, in your opinion, doesn't
10 the flavor of decoupling impact or affect the production of
11 risks that the Company faces?

12 MR. MORIN: I think investors look at it this way
13 and so do bond rating agencies. You either have it or you
14 don't type of thing. I'm not sure one can discriminate and
15 say, Well, this kind of RDM is 10-basis points, this other one
16 is 12-basis points, I don't think we can do that. The
17 technology simply does not allow us to do that, but I do have
18 the five benchmarks that I outlined earlier as a way of
19 gauging the impact on ROE.

20 COMMISSIONER KONDO: So what I understood you just
21 to say is that from the market standpoint and the investor
22 standpoint, they're just looking to see if you have a
23 mechanism, they're not trying to figure out what type of
24 mechanism you have?

25 MR. MORIN: I agree with that statement.

1 COMMISSIONER KONDO: So, from that statement, if
2 the Commission is primarily concerned about the Company's bond
3 rating, the "Company" being HECO, from your comment, does it
4 matter what mechanism the Commission approves, just that it
5 approves a mechanism?

6 MR. MORIN: Well, I think the final details are
7 secondary in importance. What is important is you have one or
8 don't you have one. That's much more important in the minds
9 of investors. When you read all the credit rating agency
10 reports and equity research reports, that's fairly low on the
11 radar screen, the details, the intricacies of the decoupling
12 mechanisms, it's not something that is discussed in equity
13 research reports, its presence or absence or however it is.

14 COMMISSIONER KONDO: In terms of the reduction in
15 the ROE associated with decoupling, does it matter to you what
16 the mechanism looks like that the Commission ultimately
17 approves?

18 And the reason why I ask that is because of your
19 last series of statements about, from the market, the
20 perspective and the concern is do you have it or don't you.

21 So from your perspective as to the appropriate
22 reduction of ROE, is it important for you to know what the
23 mechanism that is ultimately approved by the Commission
24 assuming one is?

25 MR. MORIN: I would think that's of secondary

1 importance in the minds of investors and the impact on ROE.

2 COMMISSIONER KONDO: Okay. I thought earlier you
3 said it's not a factor. Now you're saying that perhaps it is
4 a factor?

5 MR. MORIN: It's a very secondary factor, unless
6 it's completely off the wall mechanism; but, like I said, you
7 have it or you don't, and that's what's in the minds of
8 investors.

9 COMMISSIONER KONDO: But if it's a factor, albeit
10 small, that isn't it necessary for you to study the other
11 utilities that have decoupling mechanisms to understand what
12 the appropriate adjustment is to be able to accurately opine
13 as to what the appropriate adjustment may be with respect to a
14 mechanism that the Commission may approve with HECO?

15 MR. MORIN: No, it's not.

16 COMMISSIONER KONDO: Could you explain to me why
17 that is, if it's a factor, in the market and/or investors'
18 decisions as to what would be the appropriate investment?

19 MR. MORIN: Well, I'll give you the same answer I
20 gave you earlier. Risk in the minds of investors is a
21 multidimensional blend of many, many factors, demand risks
22 supply risks, construction risks, regulatory policy risks,
23 regulatory risks; and, then there's some subcategories of
24 risks. For example, the (inaudible) rate base or is the
25 commission order supportive? Do you have a forward test year?

1 What kind of regulatory line do you have?

2 You'd have risk mitigating mechanisms like RDM. We
3 don't go much further than that in the minds of investors, and
4 you don't see that in equity research reports or the credit
5 agency reports the specific mechanics and intricacies of a
6 plan is not something that I could even quantify.

7 COMMISSIONER KONDO: You understand what the
8 revenue adjustment mechanism that is part of the decoupling
9 proposal is?

10 MR. MORIN: Again, I'm not an expert in this area
11 but I understand that there is one.

12 COMMISSIONER KONDO: Do you understand what it is
13 in this -- for the HECO companies, the proposal by the HECO
14 companies?

15 MR. MORIN: Roughly, I do.

16 COMMISSIONER KONDO: Could you explain this to me
17 your understanding?

18 MR. MORIN: Well, basically if you had a sales
19 forecast, and if the actual sales forecast deviates from the
20 projected, if it's less than, for example, it's sort of a
21 deferral account or a true-up mechanism that's set aside; and,
22 if sales exceed the forecast, you would simply drawn down the
23 deferral mechanism, so it's basically a true-up deferral type
24 of mechanism.

25 COMMISSIONER KONDO: And, Dr. Morin, I think that

1 you're describing the revenue balancing account that's being
2 proposed. I'm asking about the revenue adjustment mechanism
3 that's also part of the proposal.

4 Do you have an understanding of what that is?

5 MR. MORIN: I don't know the details of that, no.

6 COMMISSIONER KONDO: I take it that that's not an
7 important factor in determining the appropriate adjustments
8 for decoupling, appropriate ROE adjustment for decoupling
9 then?

10 MR. MORIN: It would be difficult to translate that
11 into basis points in terms of ROE.

12 COMMISSIONER KONDO: Well, you don't even know what
13 it is so --

14 MR. MORIN: Yeah, well --

15 COMMISSIONER KONDO: -- it must not have been
16 important.

17 MR. MORIN: But even if I did, it's not something
18 that I would translate into basis points in terms of ROE.

19 COMMISSIONER KONDO: I was reading a response, and
20 I apologize for jumping around here, I was reading a response
21 to CA-RIR-20 in which you were asked what percentage of
22 comparison companies that implemented decoupling; and, you
23 said that you do you not have access to detailed information.

24 And I wanted to understand what that response
25 meant, and, specifically, I wanted to understand your comment

1 that you do not have access to the information.

2 What did you mean by that?

3 MR. MORIN: What number is it?

4 COMMISSIONER KONDO: It's CA-RIR-20.

5 MR. MORIN: I know of no data source or database
6 that produces that kind of detail information. One would have
7 to -- I don't even know if you could get that information from
8 even 10-Ks or annual reports, but it's certainly not in the
9 value line or AUS utility reports or the S&L Regulatory
10 Research Associates database. I just don't have access to
11 that kind of information, if it's even available.

12 COMMISSIONER KONDO: Well, certainly, the
13 information is public records. Right?

14 I mean, it's a commission order and it's a tariff,
15 so those are public records. Correct?

16 MR. MORIN: What percentage of revenues is the
17 subject of decoupling. I just simply don't have access to
18 that kind of detailed information for each company in the
19 sampling.

20 COMMISSIONER KONDO: Maybe I was confused about
21 your earlier response. I thought I heard you say that there's
22 no published type of or publication that provides the
23 information, yet -- is that what I understood you to say?

24 MR. MORIN: I don't know of any and I certainly
25 wouldn't rely on any. I use Value Line Investment Reports. I

1 used an AUS Utility Research Report. I use Bloomberg. I use
2 Zacks Investment Research. I read a lot of credit rating
3 reports and equity research reports. I have access to the S&L
4 database, but I don't see a percentage of revenues that's
5 subject to decoupling on a company-by-company basis. I've
6 never seen that and nor did I rely on that.

7 COMMISSIONER KONDO: Okay. Looking at that -- I'm
8 sorry, at Exhibit 7, that last page that you had referenced
9 earlier page 18 of 18.

10 MR. MORIN: I have it.

11 COMMISSIONER KONDO: What is the purpose of the
12 chart?

13 What is it trying to illustrate?

14 MR. MORIN: Earlier you and I discussed the
15 magnitude of the 25-basis points and where it came from; and,
16 it came from four or five different benchmarks, one of the
17 benchmarks that I looked at it is what is the difference on a
18 ROE between companies with decouplings and those without
19 decoupling. That was the only purpose of that exhibit.

20 COMMISSIONER KONDO: I see on the bottom part of
21 the exhibit it says decoupling five. I assume that's the five
22 X-es on the right of the companies where you had indicated
23 having a company mechanism; is that correct?

24 MR. MORIN: That's correct.

25 COMMISSIONER KONDO: Are you not aware of any other

1 companies, electric utilities, besides these five, that have a
2 decoupling mechanism?

3 MR. MORIN: The others are all pending as opposed
4 to subject to a final order.

5 COMMISSIONER KONDO: So the only five utilities --
6 I'm sorry, this might be a (inaudible), but I just want to
7 make sure I understood earlier what you said.

8 The only five utilities, the electric utilities in
9 the United States that have an approved decoupling mechanism
10 are the five that you have indicated on, as far as you know,
11 page 18 of 18, is that what you're saying?

12 MR. MORIN: That have been the subject of recent
13 orders in 2009.

14 COMMISSIONER KONDO: Okay. If we expand the
15 timeframe beyond or before 2009, how many electric utilities
16 have an approved decoupling mechanism?

17 MR. MORIN: Not very many, if any at all, except,
18 perhaps, ConEd and Central Hudson. Those would be the only
19 two that I'm aware of.

20 COMMISSIONER KONDO: Are you guessing?
21 I don't want you to guess.

22 MR. MORIN: Well, I'm guessing here because,
23 obviously, I don't have the 2008 data, but I would say very,
24 very few, unless you include the gas companies.

25 COMMISSIONER KONDO: I take it if I use the Idaho

1 Power Company as an example, I take it that you don't have an
2 understanding as to specific details of that Company's
3 decoupling mechanism; is that correct?

4 MR. MORIN: Correct.

5 MR. MCCORMICK: Commissioner Kondo?

6 COMMISSIONER KONDO: Yes.

7 MR. MCCORMICK: Forgive me for interrupting. I'd
8 like to just make a correction on the record.

9 On this chart, which you're referring to, that
10 Idaho company is listed twice, there are only four companies.

11 COMMISSIONER KONDO: No, I understood that, but
12 he's -- I was just counting the checkmarks, but, thank you, I
13 understood that from yesterday's discussions.

14 MR. MORIN: There's a -- I think I can supply more
15 of an answer to your question.

16 COMMISSIONER KONDO: Which question is that?

17 MR. MORIN: The current one, the number of
18 companies that have decoupling on PUC-IR-115 -- PUC-IR
19 No. 115.

20 COMMISSIONER KONDO: Okay.

21 MR. MORIN: There's an Attachment No. 1 that
22 shows --

23 COMMISSIONER KONDO: First of all, is that your
24 attachment, Doctor?

25 MR. MORIN: That's the answer to --

1 COMMISSIONER KONDO: I understood that your
2 response was only A, is that correct, or did I misunderstand
3 the response by the company?

4 MR. MORIN: PUC-IR-115 was addressed to me.

5 COMMISSIONER KONDO: Are you sure that B is your
6 response, because I certainly see --

7 MR. MORIN: No, it's not.

8 COMMISSIONER KONDO: -- that that the further
9 correspondence states --

10 MR. MORIN: No, it's not. Not it's not, but I'm
11 trying to answer your question here.

12 COMMISSIONER KONDO: Okay. I don't want you to
13 speculate here. I'm just asking to your knowledge; and, if
14 this is not your exhibit, I don't want you to read it right
15 now and tell me what it says because I can read it myself.

16 MR. MORIN: Okay. Well, that answers your question
17 about 2008 and 2007.

18 COMMISSIONER KONDO: I want to ask you the same
19 question, and I'm assuming the answer is the same with respect
20 to the other utilities that are listed on page 18 of 18, HECO
21 Hearing Exhibit No. 7, the ones that have you indicated by the
22 X-es that have a decoupling mechanism in place.

23 It's my -- do you have an understanding as to the
24 specific detail of those mechanisms?

25 MR. MORIN: No.

1 COMMISSIONER KONDO: Switching gears and really,
2 kind of, coming-off-the-wall question here is, in your
3 opinion, what is more important, the opportunity to earn, for
4 example, an ROE of 11.0 percent or is it the actual achieved
5 ROE?

6 MR. MORIN: I think both are important. I'm not
7 being political or anything, but there's no point authorizing
8 a certain rate of return if there's no option to earn it, as I
9 think is the case here. It's very difficult for HECO to earn
10 its allowed rate of return, as reasonable as that may be, it's
11 difficult because of the phenomenon known as "regulatory lag,"
12 among other things; so, I think both are important.

13 The allowed rate of return becomes meaningless if
14 the Company is never able to earn.

15 COMMISSIONER KONDO: So like the follow-up on that
16 last statement, like, currently, HECO has allowed ROE of I
17 believe it's 10.7 percent?

18 MR. MORIN: Correct.

19 COMMISSIONER KONDO: And as I understand from the
20 testimony yesterday, that in some recent period of time the
21 actual ROE is 6.4 percent?

22 MR. MORIN: That's correct.

23 COMMISSIONER KONDO: Okay. Is that better off or
24 worse off than a company that may have an authorized ROE of
25 perhaps 9 percent and it's actually achieving ROE -- actually,

1 achieving an ROE of, let's say, 8.5 percent?

2 MR. MORIN: So you want a -- you want the actual
3 earned return to coincide with the allowed rate of return; if
4 it's more than that, there should be show-cause order to
5 reduce rates; if it's less than that, it should be an application
6 for a relief.

7 COMMISSIONER KONDO: If I'm the credit market,
8 which one do I prefer, the situation where the allowed rate of
9 return is substantially higher than another company but the
10 actual ROE achieved is substantially less than the other
11 company?

12 A very confusion question. Let's use --

13 MR. MORIN: I understand the question. My quicken
14 answer, cheeky answer would be neither one.

15 COMMISSIONER KONDO: Because neither of them are
16 achieving the rate of return both --

17 MR. MORIN: That's correct.

18 COMMISSIONER KONDO: You would prefer -- the market
19 would prefer a high authorized and a high actual?

20 MR. MORIN: Well, I'll put it differently. A
21 company -- an investor would prefer a company that's earning
22 its cost of capital.

23 COMMISSIONER KONDO: Are you okay, Dr. Morin?

24 MR. MORIN: I'm fine. I'm great. Are you?

25 (Laughter.)

1 COMMISSIONER KONDO: I want to switch gears again
2 and talk a little about ECAC.

3 Yeah, I understood from your direct testimony, and
4 this is from the bottom of page 4, you note that you
5 recommended ROE is based upon the assumption that, one, the
6 capital structure is 54 percent common equity; and, two, the
7 commission continue the Energy Cost Adjustment Clause and, "in
8 the same manner as in the past."

9 Do you recall making that statement?

10 And, if you want to look at your testimony, that's
11 fine. It's on page 4.

12 MR. MORIN: Yes.

13 COMMISSIONER KONDO: Yes, you recall seeing that
14 statement?

15 MR. MORIN: Yes, I do. I'm looking at page 56 as
16 well which is --

17 COMMISSIONER KONDO: Are those --

18 MR. MORIN: I'm sorry, yeah, you're right. Page 4
19 and Page 57, the details on that statement.

20 COMMISSIONER KONDO: Are those two assumptions
21 still upon which your current recommended ROE is based?

22 MR. MORIN: Yes, absolutely.

23 COMMISSIONER KONDO: Do you understand that in the
24 decoupling dockets, the parties, including the Company, have
25 discussed or modified ECAC, Energy Cost Adjustment Clause?

1 MR. MORIN: Yes, that's my understanding.

2 COMMISSIONER KONDO: Can you explain to me what
3 your understanding is as to the different proposals related to
4 ECAC?

5 MR. MORIN: No, I'm not prepared to discuss that.
6 That's not my expertise.

7 COMMISSIONER KONDO: Do you have an opinion as to
8 whether or not your recommended ROE would change depending
9 whether or not the Commission approved one of the different
10 proposed ECAC, the ECACs that are proposed in the decoupling
11 docket?

12 MR. MORIN: Not unless it's a radical departure
13 from the past. Fuel adjustment clauses are fairly standard in
14 the industry; and, I think, the clause that's been in place in
15 the past is fine.

16 COMMISSIONER KONDO: I guess I'm a little concerned
17 about the use of the "radical departure."

18 What does -- what qualifies it as being a radical
19 departure?

20 MR. MORIN: Well, if it had, for example, dead
21 bands that are unreasonable or certain asymmetric penalties
22 associated with it, heads I win, tails you lose type of
23 regimes that you see sometimes in utilities. That's what I
24 mean by something drastic departure.

25 COMMISSIONER KONDO: Do you understand that one of

1 the proposals is for a dead band?

2 MR. MORIN: Yes, and I don't have a problem with
3 that.

4 COMMISSIONER KONDO: What's your understanding as
5 to the range of the dead band?

6 MR. MORIN: I don't know that.

7 COMMISSIONER KONDO: How did you come to the
8 conclusion that you don't have a problem with it if you don't
9 know the range of the dead band?

10 MR. MORIN: Again, it's the same answer I gave you
11 earlier with regards to decoupling. It's either you have a
12 clause or you don't. The mechanics of the clause are
13 secondary in the minds of investors.

14 COMMISSIONER KONDO: I thought I understood you a
15 few seconds ago to say that it could change your ROE if the
16 clause, if there had been -- if there was a radical departure
17 from the current ECAC, and I thought that you listed as to
18 what might constitute a radical departure as to one of the
19 things being a dead band that might be excessive.

20 Do you recall that?

21 MR. MORIN: Yeah, there is such an excessive dead
22 band. It would certainly affect the risk of the Company and
23 it's risk complexion over time. Also, if there were the
24 penalties but no offsetting rewards, that it would be
25 asymmetric and then would be a concern to investors, but I

1 don't think that's the case here so.

2 COMMISSIONER KONDO: When you say you don't think
3 it's the case here, what do you mean by that?

4 MR. MORIN: If there is no asymmetry in the -- that
5 I am familiar with in this new proposal, and I don't think
6 that the dead bands are, you know, unreasonable.

7 COMMISSIONER KONDO: What is your understanding of
8 the new proposal?

9 I thought you had earlier said you didn't have an
10 understanding but, perhaps, I misunderstood what you said.

11 MR. MORIN: I don't know the details of the new
12 proposal, but it's not a radical departure from the status
13 quo.

14 COMMISSIONER KONDO: And what is that based upon
15 that conclusion?

16 MR. ITOMURA: But it's not something that I've read
17 in the credit rating reports or equity research reports.

18 COMMISSIONER KONDO: Well, isn't that because the
19 Commission has not approved that mechanism, it's before the
20 Commission?

21 MR. MORIN: Well, one would think that the -- for
22 example, the S&P report when they're talking about the
23 negative outlook, one of the statements that they make is, you
24 know, we're concerned with the regulatory risk and what's
25 going to come out of this particular docket here but they

1 don't specify which part.

2 COMMISSIONER KONDO: And, I guess, that's my
3 concern is the things that you're looking at don't specify to
4 the level of detail that we're talking about; so, how do you
5 know that the adjustment to the ECAC, the dead band proposal,
6 that it is not a radical departure from the current ECAC?

7 MR. MORIN: I am not --

8 COMMISSIONER KONDO: That's your conclusion.
9 Right?

10 MR. MORIN: That's my conclusion.

11 COMMISSIONER KONDO: How do you know that?

12 MR. MORIN: I haven't seen it the investor reports.

13 COMMISSIONER KONDO: Would you expect to see that
14 level of detail on proposal that the Commission is considering
15 as a part of a larger decoupling document in investor reports?

16 MR. MORIN: Probably, not, unless it was a very,
17 very significant departure from past practice, no.

18 COMMISSIONER KONDO: So why would you not be
19 concerned about that level of detail if it may constitute a
20 radical departure from the current ECAC?

21 MR. MORIN: The same answer. I haven't seen an
22 investor report, so I'm not concerned about it.

23 COMMISSIONER KONDO: Well, given that you don't
24 expect it to be in the investor reports because it's an
25 ongoing proposal, why is it not significant enough for you to

1 get a better understanding either from the Company or from
2 different pleadings as to what the proposal is to determine
3 whether or not it is a radical departure from the current
4 mechanism?

5 MR. MORIN: Because it's not high on the radar
6 screen of investors compared to the other issues we've been
7 talking about like RDM and the rate base conclusions and all
8 of that stuff. That's just not high on the radar screen.

9 COMMISSIONER KONDO: But it is one of the
10 assumptions for your conclusion; and, if we change the
11 assumption, I assume your conclusion changes if we radically
12 depart from one of your assumptions, being the ECAC mechanism?

13 MR. MORIN: I'm assuming continuation of a
14 reasonable ECAC clause, period.

15 COMMISSIONER KONDO: Would a straight passthrough
16 be a reasonable ECAC clause, in your opinion?

17 MR. MORIN: Most of them are one-on-one, but it
18 would not be unreasonable to have dead bands as a way of
19 incenting the utility to manage fuel inventory in a more
20 economically sound fashion.

21 COMMISSIONER KONDO: Okay. If you don't mind, I'm
22 going to take a break here.

23 MR. MORIN: Oh, sure. I need a break too.

24 (Laughter.)

25 CHAIRMAN CALIBOSO: We're on schedule for our

1 morning break at 10:30.

2 Let's take it now and reconvene at 10:45.

3 We're in recess.

4 (Whereupon, at 10:26 a.m., a recess was taken, and
5 the proceedings resumed at 10:44 a.m., this same day.)

6 CHAIRMAN CALIBOSO: Good morning.

7 I'd like to reconvene this hearing.

8 We're continuing with the Commission's questions on
9 cost of capital.

10 Mr. Kondo, you may continue.

11 COMMISSIONER KONDO: Dr. Morin, I'm going to switch
12 gears and I'm going to talk a little about the Purchase Power
13 Adjustment Clause. I'll just going to call it PPAC for short,
14 okay.

15 I know we talked briefly about it earlier and I
16 thought your testimony was that we didn't have an
17 understanding to this specific mechanism.

18 Did I understand your testimony correctly?

19 MR. MORIN: I don't have the detailed awareness of
20 all the idiosyncrasies of the clause other than it's just a
21 passthrough clause, a filed reasonably incurred Purchase Power
22 Agreement Clause. You know that.

23 COMMISSIONER KONDO: You understand the company's
24 testimony to be that, according to S&P, the PPAC will reduce
25 the Company's imputed debt from 50 percent to 25 percent?

1 MR. MORIN: Yes, because if this is approved, this
2 will increase assurance that these costs will be recovered in
3 a timely manner; therefore, when S&P assigns a risk factor to
4 compute the amount of imputed debt, it will lower the risk
5 factor from 50 percent to 25 percent, effectively reducing the
6 debt ratio or at least that equivalent portion of that ratio
7 plan had. So that's fairly significant in the terms of
8 solidifying credit quality.

9 COMMISSIONER KONDO: Assuming that the PPAC is
10 implemented and it does result in the imputed debt being
11 reduced from 50 percent to 25 percent, does that change your
12 opinion as to whether or not it is necessary to continue using
13 the risk premium that you currently used without decoupling?

14 MR. MORIN: Yes, I would still maintain the
15 25-basis-point risk premium.

16 COMMISSIONER KONDO: Why would that be given that
17 the imputed debt is being reduced by half?

18 MR. MORIN: Well, you've got all of these other
19 risks, construction-related risks, venturing into the unknown
20 with the operating risks and the engineer risks that I
21 discussed that are associated with RPS investments so --

22 COMMISSIONER KONDO: I recall our discussion of --

23 MR. MORIN: I'm sorry.

24 COMMISSIONER KONDO: I sorry, I didn't mean to
25 interrupt you.

1 MR. MORIN: I said I regard a lot of the mechanisms
2 as offsetting new risks. Excuse me.

3 COMMISSIONER KONDO: When we talked earlier about
4 the two factors that you had listed as being the basis for
5 your risk premium, those being the size of the company and the
6 dependence on purchase power, do you recall that discussion?

7 MR. MORIN: Yes.

8 COMMISSIONER KONDO: And as I recall your response
9 to one of my questions, I recall you saying that the purchase
10 power, the fact that the company is dependent on so much
11 purchase power was more important than the size of the company
12 as a factor in your determination that there needs to be a
13 risk adjustment to the HECO Company's ROE. Correct?

14 MR. MORIN: That's correct in my direct testimony
15 of 2008 of those two factors were significant, yes.

16 COMMISSIONER KONDO: So the fact that we -- whether
17 the Company's imputed debt relating to those purchase power
18 obligations is reduced by 50 percent, that doesn't change your
19 conclusion about the need for or the amount of the risk
20 premium?

21 MR. MORIN: No, because the fact remains that the
22 Company's purchase power reliance exceeds the industry
23 average.

24 COMMISSIONER KONDO: So the imputation of debt to
25 the Company is really irrelevant to that conclusion relating

1 to the purchase power contracts as we're talking about in
2 relation to your risk premium; is that right?

3 MR. MORIN: No. It's not irrelevant. It simply
4 offsets a lot of the new risks that are precipitated by the
5 RPS requirements, for example, which were not there before.

6 COMMISSIONER KONDO: Do you believe that the PPAC
7 implemented by the Commission will reduce the company's risks?

8 MR. MORIN: Everything else being constant, it's
9 certainly a positive factor.

10 COMMISSIONER KONDO: Does that mean yes?

11 MR. MORIN: That means yes.

12 COMMISSIONER KONDO: Assuming the Company -- I'm
13 sorry, the Commission implements a PPAC as proposed by the
14 company in this docket, do you believe that there should be a
15 downward adjustment to the ROE rate?

16 MR. MORIN: Well, again, we've been around this
17 merry-go-round quite a few times about the risk premium of
18 25-basis points -- that equipment, I should say. And, again,
19 it's very difficult to parcel in a portion that's 25-basis
20 points between what policies are adopted and which ones are
21 not. So, again, it's difficult to quantify the impact of that
22 one little risk mitigating mechanism.

23 As I said earlier, I viewed the various mechanisms
24 that's sort of a package deal, and it's difficult to quantify
25 the impact of any one components of that package deal on the

1 overall effect.

2 COMMISSIONER KONDO: Yeah, I apologize if I've
3 asked you this question before, but can you explain to me why
4 it is not important for you to understand the specific details
5 of the mechanism in determining whether or not the mechanism
6 reduces risk to an amount that you should account for in your
7 calculation?

8 MR. MORIN: Because there's really no way to
9 quantify the impact on ROE because we're essentially splitting
10 split hairs. I mean, I can -- the information on capital
11 markets, the benchmarks that I reviewed to arrive at the
12 25-basis points, I thought that was a pretty good step forward
13 and to at least be able to do that; but, then to decompose
14 that 25 into how many basis points for this and how many basis
15 points for that, I don't think there's any financial theory
16 that allows me to do that.

17 COMMISSIONER KONDO: But just like decoupling can
18 take on different flavors, wouldn't you also agree that any
19 surcharge mechanism, and specifically a PPAC mechanism, can
20 likewise take on different flavors?

21 MR. MORIN: Yes, it can.

22 COMMISSIONER KONDO: So wouldn't it be important to
23 you to understand what flavor this company is proposing and
24 what flavor is it before the Commission for decision?

25 MR. MORIN: But even if I did, I couldn't quantify

1 or convert it or map into an ROE decrement or an ROE incurred
2 debt, because there's just no financial theory that allows you
3 to do that.

4 COMMISSIONER KONDO: But, certainly, if the flavor
5 was such that it would be better to the Company, you could say
6 it would have no effect versus a flavor that would be
7 something that the Company likes, you might come to the
8 conclusion that it could have a positive effect, although
9 you're not able to quantify that effect. Correct?

10 MR. MORIN: I would agree with that statement.

11 COMMISSIONER KONDO: So, again, I go back to the
12 question, Why is it not important for you to understand what
13 flavor of PPAC is being proposed?

14 MR. MORIN: Because I would be unable to quantify
15 it in terms of a lot of reasons.

16 COMMISSIONER KONDO: But you could tell me or the
17 Commission whether or not the proposal is such that it would
18 have a possible effect on the Company's risk versus a neutral
19 or perhaps even a negative effect. Correct?

20 MR. MORIN: I stand on that, yes, I could certainly
21 tell you that, but I couldn't quantify it to our reasoning.

22 COMMISSIONER KONDO: Assuming for the purpose --
23 assuming that for the purpose of approving its credit rating,
24 the Company believes that a PPAC is as equally important as a
25 decoupling mechanism, do you believe -- with that assumption,

1 do you believe that an adjustment to the ROE is appropriate if
2 a PPAC is approved in the form that is being proposed?

3 MR. MORIN: Well, it's not so much whether the
4 Company likes it or not. It's whether how investors react to
5 it or how credit rating agencies react to it.

6 Could you maybe elaborate a little bit on the
7 question?

8 COMMISSIONER KONDO: I want you to start with the
9 assumption that it's the Company's position that the PPAC will
10 have the same positive effect as the decoupling mechanism in
11 the eyes of rating agencies.

12 If that is the case, is it your opinion that the
13 PPAC -- I'm sorry, that the ROE should be adjusted downwards?

14 MR. MORIN: Well, if they're of equal importance,
15 one would take the 25-basis points and part of the 25-basis
16 points would be attributed to the PPAC.

17 COMMISSIONER KONDO: I thought we just had a
18 discussion about the PPAC by itself, but I thought that your
19 conclusion was that you could not tell me whether or not the
20 PPAC or quantify the amount that the PPAC had on the ROE
21 reduction.

22 Did I misunderstand that whole line of discussion?

23 MR. MORIN: No, I couldn't do that but, I, you
24 know, one way of maybe looking at it is try to split the split
25 hairs, but I don't have any financial basis for doing that. I

1 don't have any S&P or Moody's matrix to tell me how they would
2 react to that. There's no financial theory that quantifies
3 the relationship between the return and a sub-piece of risk.

4 COMMISSIONER KONDO: I guess my confusion,
5 Dr. Morin, is that we spent some time talking about the PPAC
6 by itself, and my understanding from your testimony, and
7 correct me if I'm wrong, was that you didn't have a good
8 understanding of the details of the proposal and you were
9 unable to tell the Commission the amount, if any, that the ROE
10 should be reduced because of the implementation of a PPAC
11 mechanism, did I understand that part of your testimony
12 correctly?

13 MR. MORIN: That's correct, I think it has a
14 positive impact and that's about as far as I can go.

15 COMMISSIONER KONDO: And that would be your opinion
16 notwithstanding the fact that you have no understanding of the
17 details of the PPAC, that it has a positive impact as to the
18 Company's risk?

19 MR. MORIN: Yes, it does. It would reduce that S&P
20 risk factor and, therefore, it would be positive from a
21 creditworthiness point of view.

22 COMMISSIONER KONDO: But what is the S&P risk
23 factor?

24 MR. MORIN: The S&P risk factor is when they
25 compute the amount of imputed debt and they would reduce it

1 from a 50-percent risk factor to 25 percent.

2 COMMISSIONER KONDO: Excuse me for a second.

3 Looking back at my notes, we had spoken earlier
4 about the 25-basis points deduction in ROE speaking
5 specifically about the decoupling and, I believe, the other
6 mechanisms that you had listed, and my notes, and they may not
7 be accurate, but my notes reflect that it was your impression
8 or your comment or your statement that without decoupling, if
9 the Commission implemented an REIS, it would result in the ROE
10 being reduced by one-half, and if the Commission had
11 implemented a PPAC, it would result in the ROE being reduced
12 by one-third.

13 Do you recall that discussion or are my notes
14 inaccurate?

15 MR. WILLIAMS: Mr. Chairman, just so the record is
16 a little bit clearer, when we talk about the ROE being reduced
17 by one-half or one-third, it's not the ROE. It's some factor.

18 COMMISSIONER KONDO: Yeah, I'm sorry. Thank you
19 for that. I didn't mean to mislead the witness. It's the
20 25 --

21 MR. MORIN: Right.

22 COMMISSIONER KONDO: -- basis points.

23 MR. MORIN: Yeah, I understood that.

24 COMMISSIONER KONDO: Thank you.

25 Is that your testimony or our my notes inaccurate?

1 MR. MORIN: Well, again, the 25-basis points is the
2 result of the adoption of all the mechanisms as a package
3 deal. The REIS and, of course, it's part of that deal, but if
4 we don't recover through the rider, the Company presumably
5 would recover through an addition to rate base or the costs in
6 the next rate base. I would think the revenue decoupling is
7 probably more important than the REIS but, again, it's
8 difficult to split hairs.

9 COMMISSIONER KONDO: I understand the difficulty,
10 but I also understood your testimony earlier to be if you had
11 no decoupling, but we had the PPAC and the REIS, that we would
12 add one-half of the 25-basis points, which is 12, and
13 one-third of the 25-basis points, which is roughly 7, and we
14 would come out with a reduction in ROE of 20- to 21-basis
15 points.

16 Do you remember that discussion?

17 MR. MORIN: Yes, I do.

18 COMMISSIONER KONDO: Okay. Now I'm talking
19 specifically about the REIS. So based upon that earlier
20 discussion, I would assume that your opinion is if the
21 Commission -- I'm sorry, the PPAC I'm talking about --

22 MR. MORIN: Yes.

23 COMMISSIONER KONDO: -- based upon that earlier
24 discussion, I'm assuming your opinion is still that if the
25 Commission implements a PPAC as being proposed by the Company,

1 that it would result in a reduction in the ROE of
2 approximately six- to seven-basis points. Correct?

3 MR. MORIN: Yes, whatever is left. But, again,
4 there's no financial theory that allows you to decompose the
5 25 to very, very, very specific basis point allowances.

6 COMMISSIONER KONDO: And by that same comment --
7 but by that same comment, is it not true that there's no
8 financial theory that allows you or that we can point to that
9 allows you to build up the ROE reduction, given all of these
10 different mechanisms?

11 I mean, we're splitting hairs one way going down
12 and one way going up; is that not correct?

13 MR. MORIN: That's correct. The 25-basis points is
14 the result of a package deal of the regulatory policy, a
15 basket, if you wish.

16 COMMISSIONER KONDO: With the PPAC in place and a
17 reduction in the imputed debt, does that do anything to your
18 calculations relating to the debt equity balance or ratio and
19 therefor your conclusion as to the appropriate ROE?

20 MR. MORIN: Well, we don't have that yet so it's
21 difficult to make that calculation.

22 COMMISSIONER KONDO: Well, let's assume that they
23 do approve a PPAC in the form that's being proposed, and let's
24 assume that it results in the imputed debt being reduced from
25 50 percent to 25 percent, does that change any of your

1 analyses or conclusions?

2 MR. MORIN: No, it does not.

3 COMMISSIONER KONDO: Let's switch gears real quick
4 to the Renewable Energy Infrastructure Surcharge and I'm going
5 to call it REIS. I think maybe you've called it renewable
6 energy infrastructure program, but I think it's all one and
7 the same.

8 Are you familiar with the mechanism that the
9 Company has proposed in that separate docket?

10 MR. MORIN: No, not with the details of.

11 COMMISSIONER KONDO: And we just talked about a
12 second ago about our earlier discussion as to the downward
13 adjustment, and I note, again, we're splitting hairs, but the
14 downward adjustment related to the implementation of an REIS
15 as proposed. Correct?

16 MR. MORIN: Correct.

17 COMMISSIONER KONDO: I'm sorry, I'm going to jump
18 back to the PPAC real quick, because I don't know if I
19 understood your answer, if you answered it.

20 But assuming that the Company believes that in the
21 eyes of the market a PPAC is equally important as decoupling,
22 does that not reduce the risk in the same amount as the
23 decoupling?

24 MR. MORIN: I'll keep giving you the same answer.
25 It's very difficult to attribute basis points if each part of

1 the portfolio of mechanisms that we're discussing here. It's
2 a positive effect and it might even increase the probability
3 of moving the negative outlook.

4 COMMISSIONER KONDO: I appreciate the difficulty.
5 I truly do. But, by the same token, the Commission is faced
6 with that same difficulty in deciding whether the appropriate
7 ROE should be given the low menu of mechanisms that are on the
8 Commission's plate currently; so, that's the basis for these
9 questions is trying to understand --

10 MR. MORIN: I fully understand.

11 COMMISSIONER KONDO: -- from an expert as to what
12 the appropriate number should be.

13 MR. MORIN: I totally understand and sympathize
14 with your task.

15 COMMISSIONER KONDO: I saw in one of your IR
16 responses, I think it's to CA-IR -- I'm sorry, CA-RIR-19. You
17 talked about some decoupling utilities.

18 Can you take a look at that response, please?

19 MR. MORIN: I have it.

20 COMMISSIONER KONDO: I don't think I saw these
21 utilities listed on the chart that is page 18 of 18 which is
22 part of HECO Hearing Exhibit No. 7.

23 MR. MORIN: That's because Orange & Rockland is
24 part of another company. Potomac Electric is PEPCO. So these
25 are essentially all PEPCO companies, operating utilities of

1 PEPCO, I should say, and Orange & Rockland is a subsidiary of
2 ConEd; and, again, those are wires companies.

3 COMMISSIONER KONDO: Well, the chart on page 18 of
4 18, does that not include wires companies?

5 MR. MORIN: Yes, it does.

6 COMMISSIONER KONDO: And maybe I misunderstood your
7 answer.

8 Are they included in the chart and just under a
9 different, the company name; or, are they not part of the
10 chart that is page 18 of 18?

11 MR. MORIN: Those orders, I think, were prior to
12 2009. That's why they're not here.

13 COMMISSIONER KONDO: In the --

14 MR. MORIN: Page 18 was limited to recent orders.

15 COMMISSIONER KONDO: -- Potomac Electric Company --
16 Electric Power Company case in the District of Columbia, do
17 you have an understanding as to when that order was issued?

18 And the reason why I ask that is because I have a
19 note here that says it was issued in 9/28/9, but is that a
20 different order?

21 MR. MORIN: Yes, that's the prior case. I would
22 think.

23 COMMISSIONER KONDO: 9/29/09 being September 20 --
24 I'm sorry, 9/28/09 being September 28, '09, of this year; so,
25 in other words, a little over a month ago, is that a different

1 case?

2 MR. MORIN: I'm not sure. This -- in RIR-19, it's
3 Case No. 1053, so I don't know what case number you're
4 referring to here.

5 COMMISSIONER KONDO: Rather than jumping to that
6 one, first, could you tell me when you were involved in the
7 Orange & Rockland utilities case?

8 MR. MORIN: That was approximately, at least, one
9 year ago.

10 COMMISSIONER KONDO: I'm sorry, what was your
11 answer?

12 MR. MORIN: At least one year ago, some time during
13 2008.

14 COMMISSIONER KONDO: And that was the case in which
15 the decoupling mechanism was being proposed?

16 MR. MORIN: Correct.

17 COMMISSIONER KONDO: And were you representing or
18 being retained by the utility?

19 MR. MORIN: Yes.

20 COMMISSIONER KONDO: Do you have an understanding
21 of what the specifics of that decoupling mechanism was?

22 MR. MORIN: No.

23 COMMISSIONER KONDO: And, in that case what was
24 your -- I'm sorry, did you say something or it must be an
25 echo?

1 In that case, what was your recommendation with
2 respect to the ROE?

3 MR. MORIN: I just don't remember.

4 COMMISSIONER KONDO: Do you recall what the result
5 was what the Commission ordered in terms of what ROE --
6 virtually what it was initially?

7 MR. MORIN: I believe it's 10 percent.

8 COMMISSIONER KONDO: Could you explain to me what
9 that means?

10 Do you mean was it reduced by 10 percent?

11 MR. MORIN: No, the allowed ROE in the decision was
12 10 percent; but, again, this a wires-only company.

13 COMMISSIONER KONDO: Was the ROE reduced because
14 the Company implemented the decoupling mechanism?

15 MR. MORIN: That was one of the factors the order
16 conditioned. It was called a BSA or bill stabilization
17 adjustment mechanism which is essentially revenue decoupling
18 and referred to the ROE and reduced it by 50-basis points on
19 those grounds; but, again, these are wires-only companies and
20 they're not contemplating the kinds of see changes that are
21 being contemplated in this docket.

22 COMMISSIONER KONDO: Can you explain to me why in
23 response to part B of that IR -- RIR, you reference only the
24 PEPCO Maryland decision and not the Orange & Rockland
25 decision?

1 MR. MORIN: I'd have to read the order to see if
2 there was any explicit reference to that. I just don't
3 recall.

4 COMMISSIONER KONDO: Well, I guess, the reason why
5 I'm asking is because are you confusing the PEPCO Maryland
6 decision with the Orange & Rockland decision when you talked
7 about the ROR being reduced by 50-basis points?

8 MR. MORIN: No, this was definitely in the PEPCO
9 Maryland decision --

10 COMMISSIONER KONDO: No, no --

11 MR. MORIN: -- (inaudible).

12 COMMISSIONER KONDO: -- I'm sorry. I understand
13 that to be that you wrote, but our discussion earlier had been
14 about the Orange & Rockland utility case that you've listed in
15 A in response to CA-RIR-19 and you -- as I recall your
16 testimony being that there was a 50-basis-point reduction to
17 the ROR -- I'm sorry --

18 MR. MORIN: ROE --

19 COMMISSIONER KONDO: -- ROE --

20 MR. MORIN: -- yes.

21 COMMISSIONER KONDO: -- in that case.

22 So I was just wondering whether or not that you
23 might have confused my question about Orange & Rockland with
24 PEPCO because Orange & Rockland was not included in your
25 response to subpart B?

1 MR. MORIN: Yes, I was talking about PEPCO, I'm
2 sorry.

3 COMMISSIONER KONDO: Do you have an
4 understanding -- do you have an understanding in the Orange &
5 Rockland case as to what the final order related to the ROE
6 was?

7 MR. MORIN: No, I had to -- I can do that as an
8 undertaking, if you wish.

9 COMMISSIONER KONDO: Do you know whether or not the
10 ROE was reduced because of the utility implementing a
11 decoupling mechanism?

12 MR. MORIN: I don't recall that, but I'm going to
13 find out in your response.

14 COMMISSIONER KONDO: Why did you not do that
15 research in response to this IR?

16 MR. MORIN: Because the Maryland case was very
17 fresh in my mind and it was very explicit in the rate order,
18 and I don't think the Orange & Rockland case was that
19 explicit. I just don't recall.

20 COMMISSIONER KONDO: Do you have any information
21 about the other PEPCO case that's listed here related to the
22 District of Columbia as to the ROE that was approved and
23 whether or that was ROE was reduced because of the
24 implementation of the decoupling mechanism?

25 MR. MORIN: I think it was reduced and, also, by

1 50-basis points, if my memory serves me right.

2 COMMISSIONER KONDO: Do you recall if either of
3 those cases -- or let's start with the first PEPCO case
4 related to Maryland.

5 Do you recall what your recommendation was to the
6 Commission as to whether or not if any reduction to the ROE
7 was appropriate?

8 MR. MORIN: Yes, it was 25-basis-points reduction.

9 COMMISSIONER KONDO: How about in the D.C. case?

10 MR. MORIN: It was consistently 25-basis-points
11 reduction.

12 COMMISSIONER KONDO: Which is the same
13 recommendation?

14 MR. MORIN: Correct, sir.

15 COMMISSIONER KONDO: And I know you made the
16 distinction a number of times about the fact that these
17 companies being wires-only companies versus Hawaiian Electric
18 Company being an integrated utility. Correct?

19 MR. MORIN: Yes, sir.

20 COMMISSIONER KONDO: Can you explain to me the
21 importance of that distinction when your recommended reduction
22 in the ROE is identical?

23 MR. MORIN: Because the allowed ROE for a
24 vertically integrated company is typically higher than that of
25 a wires company, if you look at the records, somewhere around

1 20-, 25-basis points. In recognition of the fact that these
2 companies have the riskier power production function and are
3 not just competitive as opposed to having just the wires
4 business.

5 So it's just simply an added risk factor. So if
6 you're tempted to look at the ROE of these wires companies,
7 and applying to HECO, it would be understated because these
8 companies are less risky than HECO on the grounds that they
9 had the power generation function.

10 COMMISSIONER KONDO: So that comment was really
11 intended to distinguish between the ROE number in total not
12 to --

13 MR. MORIN: Correct.

14 COMMISSIONER KONDO: -- justify a difference
15 between the recommended adjustment to that ROE because of
16 decoupling; is that correct?

17 MR. MORIN: That's well said.

18 COMMISSIONER KONDO: Switching gears to the
19 decoupling. I think that your testimony is that you're not
20 familiar with the specifics of the mechanisms that are being
21 proposed; is that correct?

22 MR. MORIN: Correct.

23 COMMISSIONER KONDO: And as I understood you to
24 testify earlier that, in your opinion, the specifics are not
25 that important vis-a-vis the -- or at least from the viewpoint

1 of the folks that are looking at what the company is -- the
2 mechanisms that the company is adopting -- let me strike that.

3 I'll start again.

4 MR. MORIN: I know what you mean.

5 COMMISSIONER KONDO: I understood your testimony to
6 be that the specifics of the mechanism is not as important
7 from the eyes of the rating agencies and investors, it's more
8 of the fact there is a mechanism.

9 Did I understand that?

10 MR. MORIN: That's correct, but it was much more
11 than that as because of financial theories inability to
12 translate the very specific details of the RDM into the number
13 of basis points that would be required to recognize the low or
14 higher risk.

15 COMMISSIONER KONDO: I thought I'd walk through
16 some questions I have about decoupling and if because you
17 don't have a good understanding as the specifics of the
18 mechanism, if you could just let me know and we can figure out
19 how to phrase the question so that you can better answer it.

20 But, I guess, I want to start with the question as
21 to whether or not, in your opinion, when you do a rate case,
22 it's reasonable to assume that the test year expenses agreed
23 for the purposes of a settlement that there are reasonable
24 approximation of the expenses that the company will
25 incorporate?

1 MR. MORIN: Yes.

2 COMMISSIONER KONDO: Is it also a reasonable
3 assumption that assuming that there's no extraordinary
4 circumstances or extraordinary unanticipated expenses that
5 the Company should be able to manage its expenses to stay
6 within a reasonable range of those test-year expenses?

7 MR. MORIN: Yes, I agree with that.

8 COMMISSIONER KONDO: Assuming that those two
9 factors that we just talked about, no matter what sales do,
10 whether they go up or down, as I understand the mechanism that
11 has been proposed and assume this, the Company will earn the
12 revenue?

13 MR. MORIN: Correct.

14 COMMISSIONER KONDO: That means or does that mean
15 with all those assumptions in place that the Company will
16 achieve its approved ROE?

17 MR. MORIN: Well, to the extent that expenses
18 differ from the forecast.

19 COMMISSIONER KONDO: With all of those assumptions
20 in place that we've talked about, is it then the conclusion
21 that the Company will achieve or reasonably achieve its ROE?

22 MR. MORIN: Yeah, if actuals turn out to be as in
23 the forecast, yes.

24 I don't know if this is relevant, but to the extent
25 that the Commission is concerned about those expenses not

1 being legitimate or fair and reasonable, you can always
2 revisit the RDM in three years, two years, whatever, if you
3 feel more comfortable.

4 COMMISSIONER KONDO: So with all of those
5 assumptions still in place, if the Commission accepted your
6 recommended ROE of 10.75 percent, that would mean that the
7 Company would almost certainly earn an actual return on equity
8 of approximately 10.75 percent, correct, with all of those
9 assumptions in place?

10 MR. MORIN: Well, assuming that all the assets are
11 in rate base, yes.

12 COMMISSIONER KONDO: Could you expand on that
13 statement?

14 MR. MORIN: Well, if you have an asset that's not
15 earning anything, it's not rate base, and the Company
16 continues to incur costs associated with that particular
17 asset, it will not earn a rate of return.

18 COMMISSIONER KONDO: Assuming the mechanism
19 includes what we call in our proceedings a RAM and there's a
20 revenue adjustment mechanism which would allow the Company to
21 put certain investments into rate base outside of a rate case;
22 assuming that, and assuming all the other assumptions that
23 we've talked about earlier, if the Commission establishes an
24 ROE, as you recommended at 7 -- excuse me, 10.75 percent, that
25 means that the Company will almost certainly earn a return on

1 its equity of 10.7 percent. Correct?

2 MR. MORIN: Yes, and this -- yeah, given those
3 assumptions.

4 COMMISSIONER KONDO: How many electric utilities
5 currently earn an actual ROE of 10.75 percent?

6 And you don't have to give me numbers. I'm just,
7 kind of, curious as to the general percentage, if you have
8 that information.

9 MR. MORIN: I would think quite a few.

10 COMMISSIONER KONDO: More than 50 percent?

11 MR. MORIN: I believe Mr. Parcell, in one of his
12 exhibits, looks at earned ROEs of utilities.

13 COMMISSIONER KONDO: And these are electric
14 utilities?

15 MR. MORIN: Yeah, I believe so. And we may find an
16 answer to that question in those exhibits.

17 COMMISSIONER KONDO: Do recall what that exhibit
18 is?

19 MR. MORIN: No, I don't. I'd have to check it.

20 COMMISSIONER KONDO: Do you have an understanding
21 as to how many electric utility companies actual earn an ROE
22 of 10.75 percent or more?

23 MR. MORIN: I can give you the exact answer to that
24 if you give an me an hour or so, because on my computer here,
25 I have AUS utility reports. It's reports where electric

1 utilities is allowed a rate of return and the earned rate of
2 return, it was at 12 months; so, I'll do that as an
3 undertaking.

4 COMMISSIONER KONDO: Is that the report that or at
5 least pages of that report that were attached as DOD Exhibit
6 No. 3?

7 MR. MORIN: Yes.

8 COMMISSIONER KONDO: And I would be able to find
9 that information from that report?

10 MR. MORIN: Yes, you will.

11 COMMISSIONER KONDO: From that report, would I be
12 able to determine whether or not utilities are wires companies
13 versus integrated utilities?

14 MR. MORIN: They make a distinction between
15 combination gas and electric versus electric versus gas
16 companies, and we're talking about AUS Utility Reports, which
17 is a monthly publication, and I have it here with me. I would
18 be glad to submit a copy for you.

19 COMMISSIONER KONDO: What's the date of that
20 report?

21 MR. MORIN: It comes out every month so I think I
22 have the latest October version Mr. Alm e-mailed him a few
23 days ago. I have it here.

24 COMMISSIONER KONDO: When you say you have it here,
25 you're talking about --

1 MR. MORIN: Yeah, I have to print it out and give
2 it to you.

3 COMMISSIONER KONDO: Do you have an understanding
4 as to what the average actual ROE that electric utilities
5 earn?

6 MR. MORIN: It's in the range of 10.5 to
7 11 percent.

8 COMMISSIONER KONDO: Non-approved ROEs we're
9 talking about or we're talking about --

10 MR. MORIN: No, no.

11 COMMISSIONER KONDO: -- jut actual earned?

12 MR. MORIN: Earned, yes.

13 COMMISSIONER KONDO: On page 67 of your rebuttal
14 testimony, you characterized a 50-basis points reduction in
15 the ROE --

16 MR. MORIN: Can I just interrupt you for one
17 second?

18 COMMISSIONER KONDO: Sure. I'm sorry.

19 MR. MORIN: I'm looking at the -- this is an older
20 issue of AUS Monthly Report. I'll give you the current
21 version, but the allowed rate of turn on average was 10.75 and
22 the earned return on book value is 10.6, at least as of that
23 time period. Yeah, it's the response to CA-IR-23 -- 33 you
24 will find that document.

25 COMMISSIONER KONDO: I'm sorry, 33?

1 MR. MORIN: Thirty-three.

2 COMMISSIONER KONDO: And HECO or the HECO companies
3 are included in that report?

4 MR. MORIN: Yes. It's Company No. 11 in that
5 report that I've referenced.

6 COMMISSIONER KONDO: I thought I knew the answer to
7 this, but I don't think so after our discussion, but on
8 page 67 of your rebuttal testimony, you had characterized a
9 50-basis-point reduction in the ROE (inaudible) decoupling as
10 being arbitrary.

11 Do you recall that, using that phrase or that word?

12 MR. MORIN: Yeah, I was commenting on Mr. Parcell's
13 adjustment; yes, I do recall.

14 COMMISSIONER KONDO: I thought that the reason why
15 you used the word "arbitrary" is because the landscape was
16 unknown, but from our discussion now, I don't think that's
17 likely the reason.

18 So could you explain to me why you think it is
19 arbitrary?

20 MR. MORIN: Because it was not based on any
21 foundation or studies or reports or publication or anything
22 like that. It's an arbitrary, a subjective quantitative
23 opinion and, perhaps, you can ask the witness to expand on
24 that.

25 COMMISSIONER KONDO: And the 25-basis points that

1 you had recommended with the factors that we discussed earlier
2 are those the reasons you would suggest that that number is
3 not arbitrary?

4 MR. MORIN: Yes, I think, I justified to you the
5 various benchmarks that I looked at to arrive at 25-basis
6 points, bond yield differentials, beta differentials, natural
7 gas versus electric, and the allowed ROEs of decoupled
8 utilities versus non-decoupled utilities, so I think there was
9 some basis and some foundation from my estimate.

10 COMMISSIONER KONDO: I know that Mr. Hill also had
11 recommended an adjustment downward of 50-basis points if
12 decoupling was approved.

13 Do you recall that?

14 MR. MORIN: Yes.

15 COMMISSIONER KONDO: And I also recall that he had
16 provided -- I think he had called it a regression analysis to
17 determine what he felt was the appropriate reduction in ROE.

18 Do you recall that?

19 MR. MORIN: Yes, I do.

20 COMMISSIONER KONDO: Would you characterize his
21 opinion about the 50-basis-point reduction in the ROE also has
22 being arbitrary?

23 MR. MORIN: No, it was based on the study of
24 volatility of earnings over some past period, which is, I
25 believe, no longer representative of what's going on in the

1 industry today; but, at least, he had some basis for arriving
2 at that number.

3 COMMISSIONER KONDO: I have this question down
4 here, but I think -- I know the answer, but I want to ask you
5 just to make sure I'm clear.

6 It doesn't matter to you in terms of whether the
7 amount that decoupling reduces the ROE -- strike that.

8 MR. MORIN: Even the specific details of the
9 decoupling.

10 COMMISSIONER KONDO: And I really wanted to ask
11 about the Revenue Adjustment Mechanism, which I had mentioned
12 earlier, would allow the Company to include plant additions
13 into rate base outside of a rate case, does that mechanism
14 make any difference to you with respect to the amount of
15 reduction to the ROE that would be appropriate?

16 MR. MORIN: I think it matters to me and it's a
17 positive factor. The reason I say it doesn't matter, it's
18 only in the sense that I cannot quantify it in terms of impact
19 on ROE.

20 COMMISSIONER KONDO: I guess my better question
21 would be, Does it matter to your recommendation relating to
22 the 25-basis-points adjustment?

23 MR. MORIN: No, it does not because there's another
24 reason for that too. The pre-approval of investments by
25 utilities; particularly, with regards to environmental and

1 conservation related type of investments is becoming more of a
2 mainstream policy, unlike RDM, which is relatively new.

3 So, in that sense, it's imbedded into the data and
4 the bond ratings of the comparable companies to a large
5 extent, so pre-approval has become fairly common of rate base
6 of investments. It's not that it's not unimportant. It's
7 because it's difficult to quantify two-basis points.

8 COMMISSIONER KONDO: I'm not sure if we're talking
9 about the same apple.

10 Assuming that the Revenue Adjustment Mechanism is
11 not a pre-approval process but rather a mechanism that allows
12 the Company to include plant in rate base outside of a rate
13 case --

14 MR. MORIN: Right.

15 COMMISSIONER KONDO: -- does that mechanism make a
16 difference to you for purposes of deciding whether or not or
17 what the appropriate reduction to the ROE is?

18 MR. MORIN: No. Because, again, such practices,
19 they usually call them depreciation trackers or some
20 nomenclature to that effect. In other words, the approval of
21 rate base additions outside the confines of a rate case.
22 That's become -- again, that's become fairly common.

23 COMMISSIONER KONDO: So do I understand your
24 testimony to be that if the Commission approves a decoupling
25 mechanism that does not include a Revenue Adjustment

1 Mechanism, does not include that, that the effect or your
2 opinion as to the amount your opinion would be still that the
3 amount to be reduced, the ROE to be reduced would be 25-basis
4 points?

5 MR. MORIN: Yes.

6 COMMISSIONER KONDO: I know you weren't here last
7 week when we had our NRRI consultant helping us conduct our
8 panel hearings, but frequently asked expert witnesses to take
9 off their advocacy hat and to wear only their expert hat and
10 it would help the Commission understand how to best decide
11 this case.

12 Do you have any suggestion to the Commission as to
13 how it should consider and then ultimately decide the
14 appropriate reduction to the ROE given the fact that the
15 landscaping is not very clear at this point; in other words,
16 the Commission has not approved certain mechanisms versus like
17 the decoupling mechanism and REIS mechanism and even the PPAC,
18 which is part of this case, do you have a suggestion or a
19 recommendation to the Commission as to how to best approach
20 the ROE issue with the appropriate reduction in that ROE
21 number?

22 MR. MORIN: It's quite a question. First of all, I
23 always wear my hat as an independent witness; especially, at
24 my age and trying to do the right thing for everybody, my
25 recommendation, and I really believe in my recommendation is

1 in my heart of hearts; so, when I tell you 25-basis points, I
2 strongly, strongly, strongly believe that and it's based on a
3 lot of foundations.

4 Just make sure you have a lot of safeguards that if
5 you approved -- you're on a verge of something extraordinary
6 here. This is very exciting because you're essentially
7 leading the nation and, perhaps, even the Western World in
8 terms of energy policy for the future, which will become the
9 blueprint for a lot of companies in the mainland and
10 elsewhere; so, I sympathize with the fact that there's lots of
11 balls up in the air and you have to decide lots of dockets and
12 everything, but I would just, you know, tell you to rely on
13 your gut feeling and to look in the witnesses' eyes and say,
14 you know, who I believe is credible, does it make economic
15 sense, is it consistent with what's going on elsewhere, is
16 this kind of ROE within the range of reasonableness compared
17 to what other regulators are doing, does it make any sense and
18 to reflecting all the risks that this Company is going to be
19 facing.

20 So it's like all the smell tests, you know; but, I
21 would make sure that I would approve a lot of these things
22 because of all these new risks, because of this new world that
23 we're entering. I would try to have safeguards and sort of
24 rights of surveillance and monitoring and make sure that you
25 specify maturity for the plants, you can always revise it and

1 recalibrate it down the road and you give a little bit of
2 headroom and flexibility if things don't turn out quite right.

3 I don't know if I'm answering the question but --

4 COMMISSIONER KONDO: Well, I appreciate that and, I
5 think, we're all in the brainstorming --

6 MR. MORIN: Yeah.

7 COMMISSIONER KONDO: -- mode, so to speak.

8 MR. MORIN: But, you know, my recommendations are
9 reasonable and not far fetched. They're very consistent with
10 what's going elsewhere. I have a worldwide reputation of
11 being somebody that's fairly reasonable and, you know, even
12 conservative by some and, perhaps, not so conservative by
13 other others; but, that's what I have to say. I would urge
14 you to approve some, if not all, of these packages of
15 mechanisms to offset all these new risks that are on the
16 horizon, and we absolutely got to get that negative outlook
17 eliminated, so this Company can borrow money on BBB rates
18 rather than something less than that.

19 COMMISSIONER KONDO: Do you think it would a better
20 practice for the Commission to approve the mechanisms that
21 we're talking about before attempting to include moving parts
22 in this rate case and adjust the ROE without understanding the
23 specifics of the mechanisms or the details of the mechanisms
24 that at this time have not been approved?

25 MR. MORIN: Yeah, I think it's worth a gamble, and

1 I'm not sure the word "gamble" is indicated here, but it's
2 worth, quote, the risks involved, I would think so.

3 COMMISSIONER KONDO: I'm sorry, I think that maybe
4 my question wasn't well stated.

5 Do you think that it would be a better process for
6 the Commission to decide the mechanisms first and that we all
7 have a better understanding as to the specifics of those
8 mechanisms before attempting to include them in a rate case
9 and adjust the ROE accordingly?

10 MR. MORIN: Well, one way to proceed is what they
11 did in Michigan is to say, Well, let's leave the ROE alone
12 right now, because we don't exactly where the cap arts are
13 going to be, we don't know the ramifications, terms of risk,
14 let's put the horse before the cart, so to speak, and approve
15 the mechanisms and then we'll have a better feel for the
16 details and the risk implications; and, then we'll decide on a
17 new ROE, higher or lower, depending on what happens to those
18 mechanisms.

19 I think that's a reasonable course of action to
20 leave it as it is now and not touch it until you have some
21 experience, some data as to what's going to happen with RDM
22 and balance and rebalancing and so forth. That would be, I
23 think, sensible.

24 Well, whatever you do, just keep in mind that we
25 got to increase the ability for this Company to earn its own

1 rate of return and reduce that lag sometime. That's really
2 killing them.

3 COMMISSIONER KONDO: If you can educate me a little
4 about the relationship between the capital structure and the
5 ROE.

6 If all things are equal, if the amount of equity
7 increases, does that mean the ROE should decrease?

8 MR. MORIN: Yeah, there's a very, very close
9 intimate connection between ROE and capital structure. If you
10 make the balance sheet stronger, if you increase the equity
11 ratio, that means less financial risks, it means lower ROE.
12 And I -- the rule of thumb that developed, based on all kinds
13 of research, which was summarized in three or four chapters of
14 my book, is that if you increase the equity ratio by
15 1 percent, you will decrease the ROE by 10-basis points,
16 everything else remaining constant.

17 So, for example, if you go from 55-percent debt to
18 50-percent debt, that's a reduction of 5 percent. Everything
19 else being constant would mean the reduction of 50-basis
20 points, 10 times 5; again, everything else remaining constant;
21 particularly, business risks and regulatory risks.

22 COMMISSIONER KONDO: And is the converse also true
23 then?

24 MR. MORIN: Absolutely. It works both ways.

25 COMMISSIONER KONDO: The same --

1 MR. MORIN: Same rule. It's a two-inch sword.

2 COMMISSIONER KONDO: Did you read Mr. Hill's
3 testimony?

4 MR. MORIN: Of course.

5 COMMISSIONER KONDO: And you understood Mr. Hill to
6 be suggesting that, assuming business as usual, the
7 appropriate range of ROE with similar for electric utilities
8 with similar risks to HECO is 9.25 percent to 10.25. Correct?

9 MR. MORIN: Well, that's his opinion but I --

10 COMMISSIONER KONDO: No, no, that's why I'm asking.

11 MR. MORIN: Yeah, that's correct, that's his
12 recommendation.

13 COMMISSIONER KONDO: I'm not trying to have you
14 adopt his recommendation.

15 MR. MORIN: No, no, no.

16 COMMISSIONER KONDO: I was just asking if that was
17 your --

18 MR. MORIN: Just read my rebuttal. I'm hesitant to
19 talk about Mr. Hill. Unfortunately, he is not here.

20 COMMISSIONER KONDO: I have a note in my notes that
21 you disagreed with Mr. Hill's opinion that if the HCEI
22 initiatives are implemented, that HECO's risks will be lower
23 than the average electric utility.

24 Did I truly capture your position?

25 MR. MORIN: That's correct. And he characterizes

1 HECO as a significantly lowered and average risk utility if
2 those mechanisms were in place. And my position is that the
3 approval of those mechanisms would make the Company, as
4 opposed to riskier than average, roughly comparable to the
5 average risk of the average utility in the industry.

6 COMMISSIONER KONDO: Is there any science behind
7 that opinion or is it, kind of, based upon an experience and a
8 view of the field, kind of thing?

9 Do you have actual numbers that you plug into
10 formulas to determine that?

11 MR. MORIN: Well, yeah, it's based on if you look
12 at the numbers that I've plugged in. It's not just an
13 exercise of plugging numbers. There's a lot of rationale
14 behind those beta inputs. The numbers suggest higher ROEs
15 than that, and the gestures and the decisions of regulators
16 which are in the 10.5, 10.6, 10.7 these days, I think lend
17 some support to my point of view on this.

18 I think a 9.5 to 10.25 would be almost guaranteeing
19 a downgrade of the Company's bonds that are already on
20 negative outlook, and we want to avoid that at all costs,
21 because that's going to cost the ratepayers a lot more money,
22 then we raise that 1.6, \$1.7 billion in the next five years at
23 higher rates, at higher bond rates, and higher equity rates,
24 that's going to cost ratepayers a lot of money; so, I always
25 tell regulators, you know, sometimes more is less in terms of

1 ROE.

2 COMMISSIONER KONDO: On page 4. bottom of page 4 on
3 the top page of 5 of Mr. Hill's testimony, DOD T-2.

4 MR. MORIN: I'll have to get that in a second.

5 Page 4?

6 COMMISSIONER KONDO: The bottom of page 4, he has a
7 discussion about -- he has a calculation of a profit, as he
8 calls, it based upon the different proposed ROEs.

9 Do you see that?

10 MR. MORIN: Yes.

11 COMMISSIONER KONDO: Now understanding that you
12 advised or suggested range of ROE, do you agree with his math,
13 his formulas that he was using to calculate what he calls
14 profit?

15 MR. MORIN: The arithmetic is okay, and that's
16 assuming that all the forecasts are correct, the expense
17 forecasts are correct, the demand forecasts are correct, if
18 everything works out fine, arithmetically it's correct.

19 COMMISSIONER KONDO: Well, he's not looking at any
20 demand forecast. He's just looking at the ROE numbers, the
21 percent advantage of common equity, and rate base, as I
22 understand it.

23 Do you understand his calculations to be different?

24 MR. MORIN: No, it's a correct calculation
25 arithmetically, it's just that the record indicates pretty

1 clearly that the Company can really never earn its higher rate
2 of return, but because of regulatory lag, which is not part of
3 that equation here, if you wish.

4 COMMISSIONER KONDO: Now decoupling would remove
5 some of that regulatory lag. Correct?

6 MR. MORIN: Yes, it would.

7 COMMISSIONER KONDO: Mr. Hill has a discussion
8 about the reduction in risks which he starts on page 6.

9 Do you recall reading that?

10 MR. MORIN: Oh, yes, I do.

11 COMMISSIONER KONDO: His first point, as I
12 understand his testimony to be, is that decoupling insulates
13 the Company from declining sales caused by economic downturn,
14 energy efficiency, conservation and, therefore, reduces risk
15 by reducing revenue volatility?

16 MR. MORIN: He is correct in that statement.

17 COMMISSIONER KONDO: Well, I understand the second
18 point to be that the HCEI requires substantial capital
19 additions and given that those additions are part of an
20 agreement with the State and the Consumer Advocate that they
21 will be subject to less challenge; and, with the REIS there
22 will be a mechanism to expedite recovery of those costs.

23 Do you agree with that statement?

24 MR. MORIN: Yes, I do.

25 COMMISSIONER KONDO: His third point, as I

1 understand, is that the current rate approved tracking
2 mechanisms will continue; thereby, maintaining the reduced
3 risks for this period.

4 Do you agree with that?

5 MR. MORIN: Yes.

6 COMMISSIONER KONDO: And, I guess, his fourth basis
7 for believing that there's a reduction in risks is that under
8 HCEI, ECAC will continue and a PPAC will be established.

9 And you would agree that both of those will reduce
10 risks. Right?

11 MR. MORIN: Well, not really. I would agree that
12 they reduce absolute risks, but it would not reduce the risks
13 relative to other utilities because other utilities typically
14 have energy recovery adjustment clauses.

15 COMMISSIONER KONDO: Now did you understand
16 Mr. Hill to be suggesting that assuming the HCEI mechanisms
17 that he listed are adopted, the ROE would be adjusted downward
18 from his recommended 9.5 percent?

19 MR. MORIN: I understood him to mean that it would
20 be at the lower end of his range, which would be the lowest or
21 amongst the lowest in the entire industry.

22 COMMISSIONER KONDO: And similar to our discussion
23 earlier about the range, you would agree that anyplace --
24 strike that.

25 And yesterday you said that if the Commission

1 understand, is that the current rate approved tracking
2 mechanisms will continue; thereby, maintaining the reduced
3 risks for this period.

4 Do you agree with that?

5 MR. MORIN: Yes.

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16 Mr. Hill to be suggesting that assuming the HCEI mechanisms
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20 be at the lower end of his range, which would be the lowest or
21 amongst the lowest in the entire industry.

22 COMMISSIONER KONDO: And similar to our discussion
23 earlier about the range, you would agree that anyplace --
24 strike that.

25 And yesterday you said that if the Commission

1 adopts an ROE of 9.5, HECO and, I quote, Undoubtedly would be
2 downgraded.

3 Do you remember that statement?

4 MR. MORIN: Oh, yes, I feel strong about that.

5 COMMISSIONER KONDO: What is your basis for that
6 conclusion?

7 MR. MORIN: Because the Company's financial
8 metrics; by that, I mean cash flow measures, debt equity ratio
9 measures, interest covered measures, stuff that other agencies
10 rely on, would be reduced severely by having a lower ROE
11 because a lower ROE means low interest coverage means a higher
12 debt ratio or lower equity rate ratio, which, I think, would
13 just put the Company over the edge.

14 It's already on weak financial metrics at 9.5 which
15 would simply push it over the edge; and, I think that's not
16 good policy, especially when this Company is going to embark
17 on this new world order and raise all kinds of money in the
18 future.

19 COMMISSIONER KONDO: And I think I asked you this
20 earlier, but you haven't spoken to anyone at the rating
21 agencies with respect to that or as a basis for that opinion.
22 Right?

23 MR. MORIN: No, I have not. My colleague,
24 Mr. Fetter, is an ex-bond rating agency expert, and I've
25 spoken with him about it, but nobody out there on Wall Street

1 that's the day-to-day trading of bonds.

2 COMMISSIONER KONDO: You spoke to Mr. Fetter about
3 a 9.5 ROE for the HECO company?

4 MR. MORIN: Well, we had spoken about, What will be
5 the impact? What's the impact of the low ROE on financial
6 metrics?

7 And, obviously, it lowers interest coverage and it
8 increases debt ratios, it lowers cash flows coverage ratios;
9 and, it would insert very, very negative pressure on the bond
10 rating, which is already on negative outlook.

11 COMMISSIONER KONDO: Do you agree with Mr. Hill's
12 statement on page 17 that because HECO's capital construction
13 contains more equity than the average electric utility that
14 the Company has substantially lower financial risks in the
15 electric industry generally?

16 MR. MORIN: No, I do not because, when you add on
17 the additional debt equivalence stemming from purchase power
18 contracts, the Company's debt ratio is actually higher than
19 average because very few utilities has much magnitude in
20 purchase power contracts as HECO does; so, I don't agree with
21 that at all.

22 COMMISSIONER KONDO: And when you talk about adding
23 the debt equivalence, are you talking about putting on the
24 entire amount of that imputed debt or is it similar to what
25 S&P does and imputes 50 percent of the PPA costs?

1 MR. MORIN: The latter. I would rely on the S&P's
2 calculation applying the 50 percent factor through the
3 capitalized value of the purchase power contract.

4 COMMISSIONER KONDO: Would your answer change if
5 the Commission prevents the PPAC which causes S&P to reduce
6 the amount of debt -- imputed debt, excuse me, from 50 percent
7 to 25 percent?

8 MR. MORIN: That would certainly be a positive
9 factor on the Company's creditworthiness and would be welcomed
10 by the investment community.

11 COMMISSIONER KONDO: If that was the scenario where
12 the PPAC was approved and the subsequent reduction imputed
13 debt, would you then agree with Mr. Hill's statements that I
14 read earlier?

15 MR. MORIN: I think the Company -- even at
16 25 percent, I think the Company's debt ratio effectively would
17 still be higher than average even with the 25 percent factor.

18 CHAIRMAN CALIBOSO: What is your understanding of
19 the Company's debt ratio if the 25 percent or the imputed debt
20 level?

21 MR. MORIN: Somewhere around the 51 percent instead
22 of 56 percent debt ratio.

23 COMMISSIONER KONDO: Did you read through DOD 201
24 which is Mr. Hill's paper on the impact of the decoupling?

25 It's an attachment on his direct testimony.

1 MR. MORIN: Have I read it or . . . ?

2 COMMISSIONER KONDO: Yeah, did you read it?

3 MR. MORIN: Yeah, I've read it.

4 COMMISSIONER KONDO: Do you have comments about
5 that?

6 MR. MORIN: It was found over the 1978-1991 period,
7 so, I mean, the whole world has changed since 1991; so, I'm
8 not sure if one were to run these regressions in Figure 2 on
9 page 6, using data that's fresher, that particular graph is
10 awfully stale. It stops at 1991. That's a long, long time
11 ago, you know, almost 20 years ago; so, I'm not sure that's
12 relevant to the new world of utilities. It certainly doesn't
13 recognize the impact of the economic recession and the lower
14 sales realized by the utilities; so, that was my main concern.

15 COMMISSIONER KONDO: Do you have any comments about
16 the regression analysis that Mr. Hill uses, just do you have
17 any?

18 MR. MORIN: No, from a statistical point of view,
19 there's nothing wrong with it. It's just that it relies on
20 1978 to 1999, and that's a long, long, long time ago.

21 COMMISSIONER KONDO: So if Mr. Hill reviews more
22 recent data and performs a regression analysis, you would find
23 those results to be persuasive?

24 MR. MORIN: To be less unpersuasive.

25 COMMISSIONER KONDO: What is your concern about the

1 regression analysis assuming that we use fresher data?

2 MR. MORIN: No concern other than the timeliness of
3 the data before the utility business completely changed in
4 terms of restructuring the competition and mix of fuels and so
5 forth.

6 COMMISSIONER KONDO: I guess I asking the question
7 because of your earlier response about it being -- when I said
8 if you find it persuasive, you said that it would be --

9 MR. MORIN: Less unpersuasive.

10 COMMISSIONER KONDO: Thank you. -- less
11 unpersuasive?

12 MR. MORIN: I'm just trying to be professional and
13 nice to Mr. Hill.

14 COMMISSIONER KONDO: So I was trying to understand
15 why, assuming that the inputs are fresher, what problems you
16 see with using a regression analysis to determine the
17 appropriate reduction in the ROE?

18 MR. MORIN: Nothing as long, as we're going
19 forward, it's going to be same as the world looking backwards
20 in the last 10, 15, 20 years, but not going back to 1978.

21 COMMISSIONER KONDO: Like I said, assuming fresher
22 data, are you saying that the regression analysis, the reason
23 why you don't find it to be too persuasive is because it's
24 backwards looking rather than forward looking?

25 I'm trying to understand --

1 MR. MORIN: Yeah, but not certain --

2 COMMISSIONER KONDO: Sorry -- let me finish.

3 MR. MORIN: I'm sorry.

4 COMMISSIONER KONDO: -- what concerns you have
5 about the regression analysis that he uses, putting the data
6 inputs aside.

7 MR. MORIN: My only concern is it's not only that
8 it's backward looking. It's that's is very, very, very stale,
9 1978 through 1991. That's my major concern.

10 COMMISSIONER KONDO: So if that issue was resolved,
11 you'd find the regression, that issue being the staleness of
12 the data, if that was resolved, you'd find the regression
13 analysis to be persuasive?

14 MR. MORIN: Yes.

15 COMMISSIONER KONDO: Did you review the Department
16 of Defense's response to PUC-IR-172?

17 MR. MORIN: Our response or their response?

18 COMMISSIONER KONDO: Department of Defense's
19 response.

20 MR. MORIN: What's the number again,
21 Mr. Chairman -- Mr. Commissioner?

22 COMMISSIONER KONDO: It's the DOD's response to
23 PUC-IR-172.

24 MR. MORIN: We're looking for it.

25 MS. SEKIMURA: Here you go.

1 COMMISSIONER KONDO: It's filed October 20, 2009,
2 if that helps you.

3 MR. MORIN: Yes, I have it.

4 COMMISSIONER KONDO: Did you previously review the
5 Depart of Defense's response to that IR?

6 MR. MORIN: Yeah, I've read it before, yes, of
7 course.

8 COMMISSIONER KONDO: Did you review the copy of
9 Mr. Hill's testimony that's attached to this IR testimony in
10 the Commonwealth of Massachusetts case involving Bay State Gas
11 Company?

12 Did you review that testimony?

13 MR. MORIN: Briefly, yes.

14 COMMISSIONER KONDO: Do you know what the
15 Massachusetts commission ultimately decided with respect to
16 the ROE?

17 MR. MORIN: No, I do not. This was a gas case, of
18 course.

19 COMMISSIONER KONDO: Now Mr. Hill recommended a
20 50-basis-points reduction in the ROE, is that your
21 recollection?

22 MR. MORIN: Yes.

23 COMMISSIONER KONDO: And he characterized his
24 recommendation as, quote, conservative. Correct?

25 MR. MORIN: I did not characterize it as

1 conservative.

2 COMMISSIONER KONDO: No, he did.

3 MR. MORIN: Yeah, he did, yes.

4 COMMISSIONER KONDO: He used the regression
5 analysis in this testimony. Correct?

6 MR. MORIN: Yes, the same kind of analysis that's
7 going back in 1979.

8 COMMISSIONER KONDO: Could you point me to that
9 where you understand the regression analysis going back to
10 1979?

11 MR. MORIN: Page 16. Instead of --

12 COMMISSIONER KONDO: Sixteen of 45?

13 MR. MORIN: Yes. -- putting years, I think he put
14 one, two, three, four, five, instead of 1971 and 1972.

15 COMMISSIONER KONDO: I'm sorry, maybe we're looking
16 at different pages.

17 Could you direct me to the page that you're talking
18 about again?

19 MR. MORIN: Page 16 of 45.

20 COMMISSIONER KONDO: Okay. And you're looking at
21 the chart?

22 MR. MORIN: Yeah, the chart is -- okay, I'm sorry.
23 Yeah, the chart is based on 1999-2008 data.

24 COMMISSIONER KONDO: That's 1999. Correct?

25 MR. MORIN: Correct, yes.

1 COMMISSIONER KONDO: Not 1977-something. It's
2 not --

3 MR. MORIN: No, that was an electric case. Our
4 case here. This is a gas case.

5 COMMISSIONER KONDO: Do you have any comment about
6 the use of the data from 1999 to the present?

7 MR. MORIN: I think it's fine. It's adequate.
8 There's nothing wrong with the fresher data.

9 COMMISSIONER KONDO: So you would find a regression
10 analysis to be persuasive using data from 1999 to the present,
11 is that what I understand you said?

12 MR. MORIN: It's more importantly to say at least
13 it's timely; although, I don't find the recommendations
14 persuasive at all.

15 I point you to page 23, line 14. I freely admit
16 that the determination of any particular value for equity of
17 return decrement includes subjective judgement.

18 COMMISSIONER KONDO: You would agree with that
19 statement?

20 MR. MORIN: Oh, absolutely.

21 COMMISSIONER KONDO: I think I recall seeing from
22 your testimony that you were not aware of any other electric
23 utility currently possessing mechanisms as extensive as those
24 that are proposed, not only in this rate case, but being
25 proposed in other dockets.

1 Do you recall making that statement?

2 MR. MORIN: Yes, and I believe that that's true.

3 COMMISSIONER KONDO: In your opinion, if it is --
4 if the Commission is uncertain as to the appropriate
5 adjustment to the ROE, should the Commission err on the side
6 of being conservative, at least vis-a-vis the Company, meaning
7 that the ROE adjustment should be, perhaps, smaller than
8 actually required; or, should the Commission err on the side
9 being more in favor of the ratepayer, meaning that the ROE
10 adjustment would be, perhaps, more than the actual ROE
11 adjustment should be given that right now the picture is not
12 too clear?

13 MR. MORIN: My definition of conservative is kind
14 of the reverse of yours; but, perhaps, one way to deal with it
15 is to authorize that that's been done in some jurisdictions as
16 to authorize the range of allowed rate of return and as
17 long -- and maybe take the midpoint to set rates; and, as long
18 as the Company's earned or restated within that range, there's
19 no rate cases. That's one way of dealing with; but, right
20 now, looking at the risks --

21 COMMISSIONER KONDO: Can I interrupt you and ask
22 you a question?

23 MR. MORIN: Sure.

24 COMMISSIONER KONDO: How would that work with the
25 decoupling mechanism to choose a rate?

1 MR. MORIN: Well, you'd have to use the midpoint
2 for a rate setting --

3 COMMISSIONER KONDO: All right.

4 MR. MORIN: -- to start the clock. I would say,
5 given the new risks and this new world order, the structural
6 parentship or paradigmship, in regulatory policy that we are
7 contemplating here today, I err to be on the conservative side
8 would mean, to me, that to grant an ROE that's equal to what I
9 recommend.

10 I don't say this as being egotistical. I say that
11 in terms of debt at 10.75 is pretty consistent with currently
12 allowed rates of returns in the last several months in the
13 electric utility business, and I'm worried about that bond
14 rating being on negative outlook; and, I think that would
15 contribute to, perhaps, erase or eradicate that negative
16 outlook tag.

17 And I don't know if that helps answering the
18 question, but let's not forget that the interest of ratepayers
19 and the investors are one and the same, because if you grant a
20 very low rate of return, there are some very negative
21 consequences on the cost of capital to this Company, which
22 eventually results in higher rates to customers.

23 If you award a fair and reasonable rate of return,
24 that maintains the Company's financial integrity, that means
25 the ratepayers are better off because the cost of capital for

1 the Company is less than otherwise would be the case.

2 So I always object to this perception in the
3 regulatory world that it's ratepayers versus investors. To
4 me, both investors and ratepayers have the same common
5 interest in having a fair and reasonable rate of return that
6 will minimize, as a cost of capital, and striving for a single
7 A bond rating is the best thing that would ever happen for
8 investors and ratepayers. I don't know if that answers your
9 question or not but.

10 COMMISSIONER KONDO: If that's the best you can do,
11 but the reason why I asked the question is I know that
12 Mr. Parcell, in his testimony, had touched on the current
13 economic situation and the difficulties or challenges that
14 HECO's customers are having or will likely have and had
15 included with a sentence that said, Clearly, this is not an
16 environment in which it is sensible to increase the
17 profitability of a regulated company such as HECO; so, that
18 caused me to wonder if the Commission is uncertain what side
19 of the ledger the Commission should err.

20 MR. MORIN: Mm-hmm.

21 COMMISSIONER KONDO: Well, I appreciate the
22 challenge in trying to help --

23 MR. MORIN: Well, I, kind of, agree with
24 Mr. Parcell's concern and share the same concerns that the way
25 out of that concern, perhaps, is to say, a little bit of pain

1 now in exchange for lots more pain later, if you don't award a
2 fair reasonable rate of return and the bonds are downgraded
3 and we're all worse off down the road.

4 The other thing I would keep in the back of my
5 mind, as a regulator, is every day we are seeing some signs of
6 recovery, and I think the worse of the economic storm is
7 behind us.

8 I mean, yesterday there was increase in industrial
9 sales. This morning the "Wall Street Journal" says the
10 housing market is at least is starting to look a little bit
11 better, not great, but better. Ford reported \$1 billion in
12 profits in car sales, so every single day in the last several
13 months we're seeing signs that I think the worse is behind us.

14 COMMISSIONER KONDO: Are you aware of the situation
15 in the State of Hawaii?

16 MR. MORIN: Yes, I've been reading all the various
17 press clippings and the furloughs and all of that, but I'm
18 sort of looking down the road here a little, and I'm saying
19 that that will be behind us. That's temporary; whereas, what
20 you decide in terms of regulatory policy permit will be
21 permanent, will be for a long, long, long time.

22 COMMISSIONER KONDO: Are you aware of general lag
23 that the Hawaii economy has with respect to vis-a-vis the
24 mainland economy?

25 MR. MORIN: Yeah, I'm aware of that, but I'm just

1 trying to project some optimism here and to say that, I think,
2 we are on the way to recovery and Hawaii will recover.

3 COMMISSIONER KONDO: And you understand that the
4 Company has indicated it will be filing a 2011 test year
5 rate case. Correct?

6 MR. MORIN: I'm not aware of that. They haven't
7 told me that yet.

8 COMMISSIONER KONDO: Does that change any of the
9 things that we've talked about today given that the next rate
10 case is only a two-year window from here?

11 MR. MORIN: Not really, because the rate to
12 recompact is such that the utilities are entitled to a return
13 to its cost of funds, no more, but no less; so, that's the
14 rate for compact, and I'm a little reluctant to change, but
15 that, you know, I share your concern and Mr. Parcell's concern
16 as well. It's a tough situation.

17 COMMISSIONER KONDO: And I thank you for your
18 patience.

19 MR. MORIN: Thank you for your questions and
20 interesting dialogue.

21 CHAIRMAN CALIBOSO: All right. We thank you. This
22 might be a good time to take our lunchtime break.

23 Let's return in an hour-and-a half, 1:30.

24 We are in recess. Thank you.

25 (Whereupon, at 12:02 p.m., a luncheon recess was

1 taken, and the proceedings resumed at 1:30 p.m., this same
2 day.)
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1 A F T E R N O O N P R O C E E D I N G S

2 CHAIRMAN CALIBOSO: Good afternoon.

3 I'd like to call this proceeding back to order.

4 We're continuing with the cost of capital topic and
5 the Commission's questions.

6 Mr. Kondo?

7 BY COMMISSIONER KONDO: Mr. Chairman, I don't have any further
8 questions for Dr. Morin, but I have a couple of questions for
9 Ms. Sekimura.

10 What is your understanding as to the factors that
11 the rating agencies considers in determining the Company's
12 rating?

13 MS. SEKIMURA: The factors that they consider are
14 comprised of both qualitative factors as well as quantitative
15 factors. The qualitative factors include such items as
16 regulatory regulation and the timeliness of decisions as well
17 as the consistency of decisions. They also take a look at the
18 markets under which we operate; and, that means what's
19 happening in the local economy. They also take a look at
20 competitiveness, looking at such factors as oil prices, and
21 amount of infiltration from things like PV and AG.

22 They also take a look at management's commitment to
23 the ratings. On the quantitative side, they take a look at
24 financial metrics. They look at the cash flow and earning
25 stream and they also look at the capital structure as well as

1 the amount of equity included in that capital structure.

2 COMMISSIONER KONDO: Anything else?

3 MS. SEKIMURA: That pretty much sums it up.

4 COMMISSIONER KONDO: One of the factors that you
5 listed was management's commitment to ratings.

6 What did you mean by that?

7 MS. SEKIMURA: What I meant is when management
8 takes a look at its capital structure and balances the amount
9 of debt that it has, as well as equity, the types of -- that
10 also includes other things such as types of activities that
11 management engages in and the types of risks that the Company
12 takes.

13 COMMISSIONER KONDO: And when you say "types of
14 activities that management engages in," what do you mean by
15 that?

16 Would you expand on that a little?

17 MS. SEKIMURA: Broadly speaking, how much risk does
18 it take. For example, does it engage in hedging as one
19 example. In terms of decisions it makes for capital
20 improvement items and managing the risks on the operations
21 standpoint, what types of projects are needed to maintain our
22 system in order to serve our customers.

23 COMMISSIONER KONDO: I know the Company, and during
24 this proceeding, as well, people talk about concern over the
25 ratings.

1 Is it the total rating or is it one or both of the
2 factors -- I'm sorry, that's a poor question.

3 I guess, I'm trying to understand is that
4 quantitative factors that you listed -- that you listed that
5 the rating agencies are having issues with, the qualitative
6 factors or is it broader, both, and then some type of overview
7 and that's what their concern is?

8 Could you articulate what the specific concerns as
9 you understand them to be?

10 MS. SEKIMURA: One of the major concerns is what's
11 happening on the regulatory space. They're carefully watching
12 the decisions that come out of the Commission in a rate case.
13 The timeliness of recovery for large capital projects, and the
14 consistency of those decisions in terms of the interim
15 decision that comes out as well as comparing it to a final
16 decision when that decision should come.

17 And that regulation is a very important factor from
18 the rating agency's standpoint to a lesser extent but they
19 also do consider the financial metrics as well on the
20 quantitative side.

21 COMMISSIONER KONDO: As far as you understand, how
22 do the rating agencies view the regulatory regulation that you
23 just talked about?

24 MS. SEKIMURA: I think based -- this is my
25 understanding and based on my conversations with the rating

1 agencies, I would characterize their view as supportive
2 regulatory environment. One of the things they are closely
3 monitoring, though, is with the RPS and what we are embarking
4 in terms of from a State policy to secure our energy, our
5 needs there. What kinds of mechanisms are going to help us
6 realize that future; and, so, you know, they are just closely
7 monitoring what's coming out of that space.

8 COMMISSIONER KONDO: Did I understand your answer
9 to be, though, that currently there's a positive -- I don't
10 know if "outlook" is the correct word because I know you folks
11 use that as a term art, but I'm not using it the same way, but
12 did I understand your answer to be that there's a positive
13 outlook vis-a-vis the regulatory side of the equation?

14 MS. SEKIMURA: When you use the term "outlook,"
15 you're not -- could you clarify on what basis --

16 COMMISSIONER KONDO: Sure.

17 MS. SEKIMURA: -- you mean by that?

18 COMMISSIONER KONDO: Based upon or from your
19 discussions with the rating agencies, is it your understanding
20 that the regulation factor that you discussed earlier that
21 they currently don't view that as being something that is
22 causing concerns over the Company's financial rating?

23 MS. SEKIMURA: I would say that they're cautious in
24 their view. In speaking with the rating agencies, following
25 the interim decision, we did talk a little bit about the

1 timing of recovery of costs for CT-1 as a risk item; and, it
2 is a concern to them and they did talk about the project's --
3 the application for that project was previously approved by
4 the Commission and something that they were hopeful to see
5 recovery at some point in time; perhaps, after the hearing, as
6 more information is shared with the Commission.

7 COMMISSIONER KONDO: During the discussion with the
8 rating agencies, does the Company ever -- I'm not restricting
9 it to the CT-1, discussion, but does the Company ever tell the
10 agency, You know what that's on us. That was our bad. It
11 didn't have anything to do with the Commission's decision
12 because it was appropriate?

13 MS. SEKIMURA: I think I would characterize our
14 discussions with the rating agencies as a very fair and
15 balanced and where management can look inwards in the actions
16 it took. We do take responsibility for that. We also do keep
17 them informed of what's happening on the regulatory space in
18 terms of potential for a decision and the timing of that, and
19 we always mentioned to them that's really left in the
20 Commission's hands, and we don't try to guess where the
21 Commission is going to go with its decision.

22 COMMISSIONER KONDO: With respect to CT-1, what was
23 the Commission -- oh, I'm sorry. What was the Company's
24 discussion with the rating agencies as to or I guess the
25 question I should ask is, Did the company accept any

1 responsibility for the decision that's reflected in the
2 interim order not to include CT-1 in interim rates in the
3 discussion with the rating agencies?

4 MS. SEKIMURA: At the time the interim decision was
5 issued on July 2nd, CT-1 was not placed -- was not placed in
6 service; and, so we did acknowledge that the unit was not in
7 rate base, not placed in service and, therefore, you know, we
8 tried to communicate that that was just one step that would be
9 happening at a future point in time. And so, you know, they
10 understood it to mean that it was reasonable that the
11 Commission at the time it issued its interim did not have it
12 included in the interim decision.

13 COMMISSIONER KONDO: Did the Company talk to the
14 rating agencies about the Imperium file fuels order that the
15 Commission issued?

16 MS. SEKIMURA: We talked about what had happened
17 with the contract and what the Company's plans were to secure
18 a supply for the unit.

19 COMMISSIONER KONDO: And was there an expectation
20 discussed with the rating agencies as to whether or not the
21 Company was likely to have a biofuel supply before or during
22 the test year?

23 MS. SEKIMURA: We have not talked to the rating
24 agencies about that specific issue.

25 COMMISSIONER KONDO: And why is that or why not?

1 MS. SEKIMURA: It's merely because of timing. The
2 last time we spoke to the rating agencies, I believe, was in
3 the August timeframe, earlier August, early August timeframe.

4 COMMISSIONER KONDO: Given the language in the
5 Commission's Imperium order relating to the requirement that
6 the unit run on a hundred-percent biofuels, does the Company
7 have the intent during the next discussion with the rating
8 agencies to express responsibilities or some responsibility
9 should the unit not go into rates?

10 MS. SEKIMURA: Can you repeat your question?

11 COMMISSIONER KONDO: Sure. I'm just trying to
12 understand in your discussions with the rating agencies,
13 specifically about CT-1 is there an expectation, does the
14 Company expect to advise the rating agencies that the Company
15 is responsible for not getting CT-1 into rates, should it not
16 get into rates or share some of the responsibility rather than
17 it being on the regulators?

18 MS. SEKIMURA: I would say that we would explain
19 our situation and talk about the steps that we are taking,
20 management is taking to secure the supply and, you know, also
21 explain to them that we are working through the process with
22 the Commission in order to get to the point where we can get a
23 meeting of the minds such that we can begin collecting a
24 return on that investment.

25 COMMISSIONER KONDO: No, I can understand the

1 discussion. I'm more concerned about or interested about the
2 discussion you had with the rating agencies or you expect to
3 have about what has happened about the reason why perhaps the
4 unit is not running currently.

5 Do you intend to have a discussion with the rating
6 agencies as to that issue; and, if so, is there an expectation
7 of that the Company will accept responsibility in that
8 discussion with the rating agencies as to why CT-1 is not
9 currently running?

10 MS. SEKIMURA: Well, to your first question, you
11 know, we do expect to have a conversation with the rating
12 agencies. I don't know the exact timing; but, from time to
13 time, we do follow up on issues and have phone calls.

14 I anticipate explaining to them where we stand
15 right now following these hearings and where we are on the
16 biofuels supply contracts. We'll also explain to them that
17 the Company is accepting responsibility for what happened in
18 the Imperium contract, and with that contract no longer in
19 place, what steps we are taking in order to secure that supply
20 such that we can, you know, move on and run the unit
21 eventually on 100-percent biofuels; and, in no way would I
22 have any disrespect for the Commission.

23 I mean it's really, you know, taking a look at what
24 we do, as a management team, and looking inward and really
25 getting to the point where we can have an understanding with

1 the Commission such that we can have the units earn a return
2 on its investment.

3 COMMISSIONER KONDO: Are there things that the
4 Company can do to help itself improve its credit rating,
5 independent of Commission action?

6 MS. SEKIMURA: Well, first of all, I would say that
7 Commission action is a very big part of our ratings. You
8 know, there are things that a regulated company cannot do
9 without Commission approval. In terms of some things that we
10 can do to improve maybe processes, as we work through major
11 projects or significant contracts, I mean, I would say that
12 there's always room for improvement on our side, but I do want
13 to emphasize that from a rating agency standpoint, what
14 happens is the regulatory space is a very important factor in
15 how they assess the Company's creditworthiness.

16 COMMISSIONER KONDO: I'm not disagreeing with that.
17 I'm just -- when you say "improved process," it was my
18 impression that that related to processes either the Company
19 has internally or processes in which the Company is
20 interacting with the Commission; but, in either event, it will
21 ultimately lead to some Commission action, did I understand
22 your use of the term "improved processes" or "improved
23 process" correctly?

24 MS. SEKIMURA: I think that pretty much sums it up.

25 COMMISSIONER KONDO: Yeah, I'm more interested in

1 things that don't relate to the Commission, that the
2 Commission is not involved in.

3 Are there not things that the Company can do,
4 independent of the Commission, to improve its credit rating?

5 MS. SEKIMURA: Well, the things that we would do,
6 again, would be internal and I believe we are doing some of
7 that in terms of how we, you know, manage our cash, our
8 financial reporting, our recordkeeping, those types of things.

9 COMMISSIONER KONDO: Anything else that you think
10 the Company can do, independent of the Commission, to helps it
11 ratings with the agencies?

12 Dr. Morin, could you let her reply, please?

13 Thank you.

14 MS. SEKIMURA: Well, you know one of the things we
15 did talk about last week were some of the cost-reduction
16 efforts that we engaged in, we did talk about items that are
17 short-term and not sustained short-term and then items that
18 are, you know, not sustainable; and, the vast majority of, you
19 know, our cost-reduction measures have been things that are
20 not sustaining. You know, we are a 24/7 operation and we
21 cannot just shut down our equipment. It takes operations and
22 maintenance expenses to keep those going.

23 You know, to some extent, we can take a look at
24 delaying some of our work but it would be more of a short-term
25 measure that we could undertake in the near term.

1 COMMISSIONER KONDO: Anything else?

2 MS. SEKIMURA: No, that's it.

3 COMMISSIONER KONDO: And when you talked about the
4 last two cost-reduction efforts, you called them short-term
5 and not sustainable, and I understand we had the discussion
6 last week, because there's short-term and not sustainable,
7 does that help the Company in the eyes of the rating agencies?

8 MS. SEKIMURA: In the eyes of the rating agencies,
9 management is taking prudent steps when it doesn't have the
10 revenues to cover its operating expenses, so management is
11 taking some action at that point; and, yes, it would be
12 something that the rating agencies would view favorably.

13 COMMISSIONER KONDO: And would that same answer
14 apply to delaying work even though it's a short-term,
15 non-sustainable effort?

16 MS. SEKIMURA: They would have to take a look and
17 understand the types of risks that we are undertaking as a
18 Company. And, when we talk about delaying work, I want to
19 emphasize that we are not taking undue risks. I mean, it's
20 just managing and pre-prioritizing are work and it's something
21 that we can't sustain for a long period of time. I mean, the
22 short-term, perhaps, but longer term, which we're going to be
23 taking on more risks as a Company.

24 COMMISSIONER KONDO: And I apologize because I do
25 understand that from our discussion last week as well; but, my

1 question was really focused on how the rating agencies view
2 that.

3 Is that viewed similar to the cost-reduction
4 efforts that you explained, management taking a proactive role
5 in trying to manage its cash flow at this time?

6 And don't I want to put words in your mouth.

7 MS. SEKIMURA: Can you repeat that again?

8 COMMISSIONER KONDO: My questions are really
9 focused on from the rating agencies' viewpoint how they view
10 some of these five things that you listed for me; so, I was
11 talking about delaying the work which was the fifth factor
12 that you listed or item that you listed, and I was trying to
13 understand how the rating agency views that.

14 Does that help the Company revise, as a rater, that
15 you've delaying work, even though delaying the work is not
16 sustainable?

17 MS. SEKIMURA: I think from a cash perspective, it
18 would help, but there needs to be a balancing act from the
19 rating agencies' standpoint with the amount of risks they
20 believe the Company is undertaking.

21 COMMISSIONER KONDO: Have you spoken to the rating
22 agencies about the efforts of the Company is currently
23 undertaking to, I guess, address the rating or try to improve
24 its rating, these five factors that you listed?

25 MS. SEKIMURA: I've not specifically spoken with

1 them on those items recently. We've had conversations on
2 items such as a capital expenditure program and our large
3 imputed debt for our purchase power agreements.

4 COMMISSIONER KONDO: What is the Company doing with
5 respect to its capital expenditures to improve itself in the
6 eyes of the rating agencies?

7 MS. SEKIMURA: We are taking a look, in light of
8 the economy, what's happening with our customer requests and
9 looking at our work plans for the next five years, that's
10 currently going, that process right now, to see if these
11 projects can be rescheduled or even, perhaps, canceled in
12 light of recent events.

13 In speaking with the rating agencies about capital
14 expenditure programs from other companies, there have been --
15 there's been some feedback that companies have been scaling
16 back on their CAPX based on what's happening on the economy;
17 but, that said, they do recognize that infrastructure needs to
18 be maintained and are looking at each Company's management in
19 terms of the decisions they make regarding the timing of those
20 capital expenditures.

21 COMMISSIONER KONDO: So the discussions about the
22 capital expenditures with the rating agencies has that
23 improved the Company's -- does it help the Company in the eyes
24 of the raters?

25 Have you gotten feedback that it would indicate

1 that it's been helpful?

2 MS. SEKIMURA: Well, the capital expenditure
3 program, the rating agencies take a look at the level of
4 capital expenditures. A bigger capital expenditure budget
5 means that we've got to go out into the markets to raise the
6 financing; and, so that is the concern from the rating
7 agencies' standpoint.

8 Number one, How are you going to raise capital?

9 And, number two, is a cash flow issue as well.

10 COMMISSIONER KONDO: Does the Company have
11 difficulty raising capital?

12 MS. SEKIMURA: Our last event out in the market was
13 on July 30th when we closed on our
14 150-million-dollar-revenue-bond deal. We were, you know,
15 nervous about going out with the two negative outlooks, but we
16 were a BBB Company and we were able to close on that deal. I
17 don't know if I've answered it.

18 COMMISSIONER KONDO: Isn't the answer to my
19 question, no, there has been no difficulty raising capital?

20 MS. SEKIMURA: Not on the -- no, not on the
21 long-term sense. On a short-term basis, we do go out to the
22 markets to borrow short-term; and, when we got the negative
23 outlook by S&P in May of 2009, they also lowered our
24 short-term ratings A2 to A3. That prevented us from going out
25 to access the commercial paper market because tier-three

1 companies don't have as much interest as a tier-2A2 company.
2 And what we had do, in that sense, was to borrow on our line
3 of credit. The line of credit that was established was merely
4 to be a backup for those commercial paper borrowings, but
5 we've now got cut off from one option, and that's the
6 commercial paper market.

7 COMMISSIONER KONDO: What's the amount of the --
8 what the Company had to borrow?

9 MS. SEKIMURA: It varies depending on the time of
10 the month, because those are the fluctuations. It could range
11 anywhere from 12 to \$15 million.

12 COMMISSIONER KONDO: I know you also mentioned that
13 you were discussing or you have been discussing with the
14 rating agencies the large amount of imputed debt. Correct?
15 Correct?

16 MS. SEKIMURA: Yes.

17 COMMISSIONER KONDO: Well, what is the Company
18 doing to address that issue for purposes of helping itself in
19 the eyes of the rating agencies?

20 MS. SEKIMURA: One of the mechanisms we are
21 proposing in this case is the Purchase Power Adjustment
22 Clause. In the eyes of the rating agencies, that mechanism
23 would reduce the risk factor that they apply in computing
24 imputed debt.

25 COMMISSIONER KONDO: Yeah, I understand that and

1 appreciate that clarification.

2 Again, I was hoping to understand the things the
3 Company is doing or can do, independent of the Commission, but
4 that would be something that depends on Commission approval.
5 Correct?

6 MS. SEKIMURA: That's correct.

7 COMMISSIONER KONDO: I know you listed managing
8 cash as one of the first factors you listed as to what the
9 Company can do, independent of the Commission, in helping
10 itself in the eyes of the raters.

11 Could you explain or expand on what you meant by
12 managing cash?

13 MS. SEKIMURA: Managing cash is a -- it's very
14 broad and I can give you an example. One example is if we
15 take a look at what's outstanding from our customers, we take
16 a look at the aging reports and what can we do to help
17 accelerate some of those payments as well as to bring down the
18 amount included in that aging report.

19 We have a customer service team that goes out and
20 works with our customers to get those amounts collected in a
21 more timely fashion, as well as when they are 30 days past due
22 or 45 days past due, to provide them with a notice of the
23 delinquency. That's just one example.

24 COMMISSIONER KONDO: What has the Company done in
25 terms of its financial reporting to attempt to improve its

1 position with respect to the raters or the eyes of the rating
2 agencies?

3 MS. SEKIMURA: In our financial reporting, as a
4 public -- publicly traded -- as a subsidiary of a publicly
5 traded Company, the amount of transparency that we have in the
6 reports is helpful for investors to make decisions and that
7 transparency in terms of how management views thing like
8 reserves or how they account for things is something that the
9 rating agencies view as important from a management
10 standpoint.

11 COMMISSIONER KONDO: So is it the Company is
12 attempting to become more transparent, is that the result of
13 the Company's efforts on this recordkeeping -- I'm sorry,
14 financial reporting?

15 MS. SEKIMURA: That's correct.

16 COMMISSIONER KONDO: What about a third factor you
17 listed, this recordkeeping, could you expand on that, what is
18 the Company doing relating to recordkeeping to help itself in
19 the eyes of the raters?

20 MS. SEKIMURA: I must apologize. When I talked
21 about recordkeeping, I really meant the financial reporting as
22 one kind of overarching aspect, because the things that we do
23 on a recordkeeping front flow into the financial reporting
24 process.

25 COMMISSIONER KONDO: Well, the things that I wrote

1 down that you listed that the Company internally is doing to
2 help itself improve its credit rating, its manage its cash,
3 two, financial reporting; three, cost reduction efforts; four,
4 delaying work, and then we talked about No. 5, which is the
5 CAPX project, the capital expenditures, and that's the one you
6 told me you had actually spoken to the rating companies about.
7 Correct?

8 MS. SEKIMURA: That's correct.

9 COMMISSIONER KONDO: Can you tell me why you have
10 not spoken to the rating agencies about one through four, the
11 Company's efforts to improve itself in engaging or by
12 implementing or trying to manage one through four -- I'm
13 sorry, if you don't understand it, I'll start it again.

14 Can you explain to me why the Company has not
15 spoken to the credit rating agencies about the Company's
16 efforts, internal efforts, to manage cash to be more
17 transparent in their financial reporting to reduce costs and
18 to delay work?

19 MS. SEKIMURA: Well, in terms of the cost-reduction
20 measures that were recently undertaken, it was just a matter
21 of timing in terms of the last time we spoke with the rating
22 agencies. I guess, on the other items, you know, we talked to
23 them previously -- I'm sorry, if I misunderstood your
24 question. I thought you were talking about recent
25 conversations with them, but it is an expectation that, you

1 know, we do engage in these types of activities, managing
2 cash, having transparent financial reporting and also taking a
3 look at our work plans and prioritizing them as needs change
4 and that's something that we do on an ongoing basis.

5 COMMISSIONER KONDO: I guess I'm curious, and I
6 don't mean this question to be argumentative, but I'm curious
7 because it seems, to me, that in this proceeding and many
8 other proceedings, the Company expresses its concern about its
9 current rating to the Commission frequently.

10 I guess I'm curious as to why, and maybe there's
11 nothing that you can do, but why there's not more effort being
12 done by the Company internally, absent Commission involvement
13 to better itself in the eyes of the credit rating agencies.

14 Can you comment on that?

15 MS. SEKIMURA: The bigger items that we are faced
16 with have to do with things like our large capital expenditure
17 program and, you know, those do require us to go out to the
18 markets to raise the capital and any long-term financing does
19 require Commission approval.

20 COMMISSIONER KONDO: Okay. I'm going to switch
21 gears, and I'm not sure if you're the right witness, but, if
22 you're not, please tell me.

23 I'm curious if the Company -- or have you done any
24 type of analysis to determine what is more cost-effective for
25 the ratepayer?

1 And what I mean by that is improving the Company's
2 credit rating or -- improving the Company's credit rating
3 through an ROE that is at a level that is suggested by
4 Dr. Morin versus the additional costs to borrow money should
5 the credit -- I'm sorry, should the ROE be reduced, for
6 instance, 200 basis points, has the Company done any type of
7 analysis as to where the break-even point is from the
8 perspective of the ratepayer.

9 Do you understand my question?

10 MS. SEKIMURA: Yes, we have not done an analysis;
11 but, that said, in terms of credit ratings, we are concerned
12 with, you know, number one, being able to, as Dr. Morin
13 pointed out, accessing the market and getting credit on
14 reasonable terms and, number two, is getting access to the
15 markets to begin with.

16 COMMISSIONER KONDO: Is the concern primarily about
17 access to long-term debt or short-term debt when we talk about
18 access to the markets?

19 MS. SEKIMURA: It's comprised of both, because in
20 terms of our financing, we do borrow short-term for our more
21 immediate cash needs and we do borrow long term for big
22 capital projects. It's a combination. Both are very
23 important to us.

24 MR. ITOMURA: Given the size of the long-term debt,
25 isn't that the bigger concern, your access to that debt rather

1 than the short-term debt?

2 I mean, to run the day-to-day operations of the
3 Company it might be a few million dollars versus a large
4 project, for instance, the CT-1 when you're talking hundreds
5 of million of dollars, isn't that the concern, the access to
6 the long-term debt or the bigger concern?

7 MS. SEKIMURA: I would say, yes, in terms of
8 significant dollars.

9 COMMISSIONER KONDO: Well, in terms of the harm to
10 the Company that's not able to access debt. Correct?

11 MS. SEKIMURA: Could you restate that?

12 COMMISSIONER KONDO: The harm to the Company is
13 greater, if the Company has no access to long-term debt versus
14 short-term debt; is that correct?

15 MS. SEKIMURA: Could you explain what you mean harm
16 is greater in what sense?

17 COMMISSIONER KONDO: Well, the Company can't build
18 the project if it has no access to long-term debt, yet the
19 Company has found the workaround with respect to its inability
20 to obtain short-term debt, meaning using its credit line; so,
21 it seems, to me, that if the harm is greater, if you can't
22 access the 150-million-dollar loan or whatever type of debt
23 instrument versus trying to pay your day-to-day operations and
24 a few million dollars, is that not correct, and if it's not,
25 could you explain to me why?

1 MS. SEKIMURA: I would agree with you.

2 COMMISSIONER KONDO: Understanding that there's a
3 point where you will not have access to the long-term capital
4 market, long-term debt, is it not prudent for the Company to
5 run the analysis like I talked about earlier of the ratepayer
6 perspective attempting to determine where the break even-point
7 is, reduction in ROE and, therefore, the higher cost of
8 capital and, perhaps, less access to the capital versus an
9 increase in the ROE and a resulting increase vis-a-vis the
10 raters, is that not a prudent exercise for the Company?

11 MS. SEKIMURA: I don't know how to answer your
12 question.

13 COMMISSIONER KONDO: Well, doesn't it make
14 commonsense that you'd want to know where the line is?

15 You're asking us to approve something, and as you
16 probably can tell from my questions of Dr. Morin, it's
17 something that is, to me, almost going in the black box; so,
18 I'm trying to get a better feel for where the line is.

19 Isn't it, just from a commonsense perspective,
20 something that you'd want to know where the tipping point is?

21 MS. SEKIMURA: I'm not sure how I would run that
22 analysis or where that's -- how I would calculate that tipping
23 point.

24 COMMISSIONER KONDO: Have you had any thought about
25 this question. I mean, I don't mean to put you on the spot,

1 and I understand that it may be much more complicated than I'm
2 explaining and, therefore, you haven't had an opportunity to
3 fully think about it, but my question is have you ever thought
4 about it, before I'm asking you about?

5 MS. SEKIMURA: I thought about it, but I'm just not
6 sure how I would try to put a metrics or quantify where that
7 line would be.

8 COMMISSIONER KONDO: Have you attempted to see if
9 there's other resources that could help you whether it's
10 internal or through some consultants?

11 MS. SEKIMURA: No.

12 COMMISSIONER KONDO: And I'm not suggesting that's
13 it's possible. I'm just asking because I don't know. But
14 have you ever asked for instance, Dr. Morin or Mr. Fetter, as
15 to whether or not such an analysis could be performed?

16 MS. SEKIMURA: I have not asked them.

17 COMMISSIONER KONDO: Thank you, Ms. Sekimura.
18 I don't have any more questions.

19 CHAIRMAN CALIBOSO: Commissioner Cole?

20 COMMISSIONER COLE: Ms. Sekimura, this just kind of
21 dovetails from Commission Kondo was asking.

22 It seems that Dr. Morin was stating that the worth
23 of the decoupling mechanism and all the other risk reduction
24 mechanisms before us to the Company and the shareholders was
25 25-basis points.

1 To me, that seems, kind of, a small price
2 considering what the ratepayers would be bearing.

3 MS. SEKIMURA: I'm not sure what question you're
4 asking me.

5 COMMISSIONER COLE: I guess, it, kind of, goes to
6 what Commission Kondo was saying. If there's an analysis of
7 the cost to ratepayers with one versus the other, say the
8 25-basis points, what that would end up costing ratepayers
9 versus taking on all the risks of those various mitigation
10 measures, you know, transferring from the Company to the
11 ratepayers.

12 MS. SEKIMURA: Are you asking me what the value of
13 that 25-basis points is in terms from a ratepayer's
14 standpoint?

15 COMMISSIONER COLE: I guess what I'm saying is it
16 seems small, from a ratepayer's standpoint, but it seems like
17 that's what the Company is willing to give to get those risks
18 out of mitigation measures; is that accurate?

19 MS. SEKIMURA: I'm not sure what you mean by
20 "small."

21 COMMISSIONER KONDO: If I could jump in, I think
22 what Commission Cole was asking is 25-basis-point-reduction in
23 the ROE --

24 MS. SEKIMURA: Mm-hmm.

25 COMMISSIONER KONDO: -- it equates to a certain

1 number.

2 MS. SEKIMURA: Yes.

3 COMMISSIONER KONDO: How does that number compare
4 if the Company -- I'm sorry, if the Commission denies all of
5 the mechanisms that went into Dr. Morin's calculation in
6 reducing the basis -- the ROE by 25-basis points, if the
7 Commission denies them all, how does that number compare with
8 the other scenario?

9 In other words, is there a benefit -- what's the
10 cost benefit analysis of reducing the ROE by 25-basis points
11 versus keeping business as usual?

12 I think that's Commission Cole's question.

13 MS. SEKIMURA: Well, in terms of if we were to take
14 a look at what 25-basis points means in terms of revenue
15 requirement, I would agree that it's a small number. I'm
16 comparing to -- I guess your question is a bit -- comparing
17 that small number to the value of the results of the other
18 mechanisms, decoupling, and the surcharge, it is a small
19 number.

20 COMMISSIONER COLE: I guess that's what I was
21 getting at is the value of that avoided risks to shareholders
22 and the Company, if that's 25-basis points.

23 MS. SEKIMURA: I would rely on Dr. Morin's
24 assessment of what value was placed on the differential.

25 COMMISSIONER COLE: Sure.

1 MR. MORIN: I'm not sure if business as usual is an
2 option at this point in time, given the Clean Energy Agreement
3 and the RPS targets. I'm not sure the Company could get by
4 with business as usual with no risk reduction mechanisms to
5 compensate for all the new horizon risks that would be
6 forthcoming as a result of meeting the RPS requirement.

7 And, again, given that we're already on negative
8 outlook, the suggestion of business as usual, I think, would
9 be a disastrous from a bond rating perspective and cost of
10 capital perspective; and, I think everybody would be worse
11 off.

12 So I think the 25-basis points is a reasonable
13 price to pay given all these other new risks that the Company
14 is undertaking as a result of the energy agreement.

15 COMMISSIONER KONDO: Mr. Fetter, can I ask you a
16 couple of questions?

17 MR. FETTER: Yes, sir.

18 COMMISSIONER KONDO: It's mister and not doctor; is
19 that correct?

20 MR. FETTER: Well, I'm a lawyer and overseas they
21 call me a doctor.

22 COMMISSIONER KONDO: If I call you doctor, then you
23 have to call us doctor?

24 MR. FETTER: Okay, Commissioner.

25 (Laughter.)

1 COMMISSIONER KONDO: I guess I just have one
2 general question. It was my impression from reading your
3 three testimonies that were submitted, your original
4 testimony, rebuttal testimony, and then the supplemental
5 testimony, that the focus of your testimony changed, and I
6 want to understand why; and, I think -- well, my impression
7 is, and you can correct me if I'm wrong, but my impression is
8 your initial testimony was really focusing on the fact that
9 part of the problem that the Company is experiencing is the
10 lack of -- I don't want to use the word "lack," because I
11 don't want to put words in your mouth, but there seems like
12 there was a regulatory support issue where the Commission's
13 delay in issuing decisions was causing the Company problems in
14 the eyes of rating agencies; is that correct?

15 Do I understand your initial testimony to focus,
16 for lack of a better word, on that issue in one and perhaps of
17 two issues?

18 MR. FETTER: I would say that the initial direct
19 testimony was meant to explain the credit rating process,
20 talked about the importance of regulation, and just encourage
21 this Commission to issue timely decisions; so I don't think in
22 any of my testimony I ever meant to indicate negative use
23 about this Commission.

24 In fact, I think in my supplemental, I indicated
25 that each Commission operates under its own legislative

1 framework; and, I would never presume that one Commission was
2 doing a poor job based on looking at all 50 or 51 commissions.

3 COMMISSIONER KONDO: I wasn't meaning to imply
4 anything by my question, it's just that in the subsequent
5 testimonies, I didn't see the same focus on the timeliness of
6 the Commission's actions. I saw the focus but I don't think I
7 see it even mentioned in the subsequent testimonies that you
8 submitted. The focus seems to have shifted more on the
9 recovery of costs, that the mechanisms to recover costs that
10 are being proposed before the Commission that weren't being
11 proposed at the time of your initial testimony.

12 So I was just, kind of, curious as to why the focus
13 of your testimony shifted, and maybe my impression is
14 incorrect, and you're welcome to correct that.

15 MR. FETTER: Well, just looking, you know, pulling
16 out my supplemental testimony where on page 1 of 7 where it
17 says, What is the purpose of your supplemental testimony?

18 And I indicate in the supplemental testimony, I
19 focused on the importance of the Commission providing Hawaiian
20 Electric with timely recovery of funds prudently expended for
21 its planning activities in capital investment with a fair
22 return related to public policy goals, including greater use
23 of renewable energy resources; so, I think I'm carrying
24 through on the theme of timely recovery of all prudent
25 expenditures.

1 COMMISSIONER KONDO: Maybe that was just my
2 misunderstanding. When you characterized it like that, it was
3 my impression that you were talking about mechanisms that
4 would allow more timely recovery versus the discussion in your
5 initial testimony about the timing of Commission decisions;
6 specifically, final decisions relating to rate cases.

7 Did I misunderstand the characterization in your
8 supplement testimony?

9 Did that mean to be inclusive?

10 MR. FETTER: Sir, I guess I view the thread
11 throughout all my testimony is trying to match up actual costs
12 with timely recovery; and, so to the extent I mentioned
13 something indirect and then maybe, you know, phrased it
14 slightly differently on the supplemental, my intent was not to
15 abandon anything I said before but to build upon the issues as
16 they developed in the course of this case.

17 COMMISSIONER KONDO: Okay. Well, thank you.

18 MR. FETTER: Thank you.

19 CHAIRMAN CALIBOSO: Go ahead, Commissioner Kondo.

20 COMMISSIONER KONDO: Yes, I have some questions of
21 you, Mr. Parcell, some of which are very similar to the
22 questions I asked Dr. Morin this morning.

23 I guess I want to get some information about what
24 you've done in this case so far.

25 So could you tell me how many hours you spent on

1 this case?

2 MR. PARCELL: Actually, I cannot.

3 COMMISSIONER KONDO: Can you give me a ballpark?

4 MR. PARCELL: Well, under my contract, it's
5 somewhere in the lower 20-thousand-dollar range. My hourly
6 rate is 175, and I've spent about that amount; so, if I had
7 added, say, 22,175, which I can do now, I could get an
8 estimate on that.

9 COMMISSIONER KONDO: While you're doing that, your
10 contract is for 22,000?

11 MR. PARCELL: Approximately.

12 COMMISSIONER KONDO: And that is only for this rate
13 case?

14 MR. PARCELL: Yes.

15 COMMISSIONER KONDO: Have you been retained as
16 consultant by the Consumer Advocate for the MECO rate case?

17 MR. PARCELL: Yes.

18 COMMISSIONER KONDO: Have you also been retained in
19 the HELCO rate case that has yet to be filed?

20 MR. PARCELL: No.

21 COMMISSIONER KONDO: What is your contract with the
22 Consumer Advocate's office relating the MECO rate case, the
23 dollar value?

24 MR. PARCELL: I don't recall. It would be somewhat
25 less than the HECO case, though. The number, by the way, is

1 125.

2 COMMISSIONER KONDO: About 125 hours.

3 MR. PARCELL: Well, I take that back because I have
4 expenses; so, probably a hundred hours would be an estimate.

5 COMMISSIONER KONDO: In addition to representing
6 the Consumer Advocate and their offices, have you also
7 appeared an a consultant for utilities?

8 MR. PARCELL: On a rare occasion, I have, yes.

9 COMMISSIONER KONDO: How many times is that?

10 MR. PARCELL: Well, I work for a group of small
11 water utilities in South Carolina for a three- or four-period
12 year period of time back in the 1980s; so, maybe three cases,
13 it could be four, and, I've done some work at FERC on behalf
14 of Old Dominion Electric Cooperatives Utility, and I've filed
15 testimony for them once or twice --

16 COMMISSIONER KONDO: And what --

17 MR. PARCELL: -- but that would be it.

18 COMMISSIONER KONDO: -- timeframe is that?

19 MR. PARCELL: The latter was, I think, 2004.

20 COMMISSIONER KONDO: Have you been retained as a
21 consultant for commissions?

22 MR. PARCELL: Commissions -- well, commissions and
23 commission staffs, similar work that I do at the FERC involves
24 interstate natural gas pipelines. And in some occasions,
25 commissions intervene on behalf of their own utilities,

1 because the pipeline rates flow into the LEC rates, and those
2 rates get charged to customers.

3 So I've worked for the Missouri Commission, the
4 North Carolina Commission. Those two come to mind. Plus, I
5 have testified over the past five years on behalf of 212
6 commission staffs throughout the United States.

7 COMMISSIONER KONDO: In those cases, does the
8 commission staff serve in the role of the Consumer Advocate or
9 is it a different role?

10 MR. PARCELL: Some of each. For example, in
11 Washington State, where I'll file some testimony in a couple
12 weeks, the commission staff files testimony and the Public
13 Advocate files testimony.

14 On the other hand, in Georgia, the commission staff
15 is referred to as -- in the generic term, is the advocate
16 staff, but it's the only staff there is. So some states have
17 a staff that files testimony, plus the Public Advocate, and
18 some do not.

19 In Arizona where I'm filing testimony this week,
20 the commission staff files testimony in RUCO, which is
21 Residential Utility Consumer Office, filed testimony, so there
22 the staff is not an advocate. So, probably, I would just
23 guess that two-thirds or three-fourths of the cases where I
24 represent commission staffs, there is the staff as a staff as
25 opposed to an advocate.

1 COMMISSIONER KONDO: Is it fair to say that the
2 majority of the work is on behalf of the Consumer Advocate, a
3 Consumer Advocate like entity such as the commission staff.
4 Correct?

5 MR. PARCELL: Say it again, please.

6 COMMISSIONER KONDO: The vast majority of your work
7 is on behalf of Consumer Advocates or a Consumer Advocate like
8 entity, for instance, the commission staff that asserts that
9 that role, that would be correct?

10 MR. PARCELL: That would not be correct because,
11 like I said, Washington State, Virginia, Arizona,
12 New Hampshire, Delaware, Missouri, Arkansas, states that I've
13 testified, those states have consumer advocates that are not
14 part of the commission staff; so, the answer would be no for
15 those states. It would be commission staffs not operating as
16 Consumer Advocates.

17 COMMISSIONER KONDO: I was just trying to get a
18 general understanding of the amount of work that you performed
19 on behalf of Consumer Advocates versus the other entities that
20 you are retained to assist?

21 MR. PARCELL: I would estimate half and half.

22 COMMISSIONER KONDO: Are you familiar with
23 Mr. Hill?

24 MR. PARCELL: Yes, I've known him for years.

25 COMMISSIONER KONDO: Have you ever been in a case

1 together?

2 MR. PARCELL: We are rarely in rate cases because,
3 in a sense, we're competitors. If I was hired to do the
4 carse, normally he would not; but, as it was in this case,
5 there was two witnesses hired, so I don't see him that often
6 but I know him fairly well.

7 COMMISSIONER KONDO: And what's your professional
8 opinion of Mr. Hill?

9 MR. PARCELL: Well, I like him. I think he's a
10 very smart and talented person. He passionately believes in
11 what he does and he's technologically sound, I would say.
12 He's mechanically correct. He tends to have more
13 recommendations than I do, but that's just a difference of our
14 implementation of our models.

15 COMMISSIONER KONDO: But you have problem with the
16 manner in which he arrives at the number even though his
17 number is lower than your number?

18 MR. PARCELL: I would agree with that. I do not
19 have a problem.

20 COMMISSIONER KONDO: I wanted to get your
21 understanding. Dr. Morin talked this morning about this
22 \$1.8 billion that the consolidated companies expect to need
23 over the next five years.

24 Do you know anything about that?

25 MR. PARCELL: Not directly, no. I mean, I've seen

1 numbers like that, but I don't have any direct knowledge of
2 it, no.

3 COMMISSIONER KONDO: When you say you've seen
4 numbers like that, relating to this rate case?

5 MR. PARCELL: Yes.

6 COMMISSIONER KONDO: And what's your understanding
7 as to the need for that money?

8 What are they going to bill?

9 MR. PARCELL: I can't give you the specifics, I
10 mean, of plant transmission, distribution, expansion
11 replacement, but I can't give you specifics. I don't know.

12 COMMISSIONER KONDO: If you don't know, that's
13 okay --

14 MR. PARCELL: Yes, I don't --

15 COMMISSIONER KONDO: -- just tell me you don't
16 know.

17 MR. PARCELL: -- know.

18 COMMISSIONER KONDO: I had a discussion this
19 morning with Dr. Morin about his range, and I understood from
20 your testimony that you had opined that the appropriate ROE is
21 between 9.5 percent and 10.5 percent. Correct?

22 MR. PARCELL: That is correct.

23 COMMISSIONER KONDO: And that's assuming no
24 decoupling; in other words, business as usual. Correct?

25 MR. PARCELL: Well, that's really not my range both

1 ways; but, with decoupling, I proposed at the bottom of the
2 range a opposed to the midpoint without decoupling.

3 COMMISSIONER KONDO: The same discussion I had with
4 Dr. Morin, I'm not sure I understand when you give me a range
5 why if I use any number within that range if therefor is not
6 reasonable.

7 So, in other words, business as usual, the range is
8 9.5 percent to 10.5 percent if I or the Commission decides
9 that 9.5 percent is the appropriate ROE given a business as
10 usual scenario while you would not find that to be reasonable
11 given that it's within your range.

12 MR. PARCELL: Well, in a sense, I would and we
13 would. The complicated factors for the cost of capital is,
14 like we all are and we all have ranges, is that you don't
15 really measure your cost of capital, you estimate the cost of
16 capital, because you're using market models. I'll try to keep
17 this quick, on the cost of capital, I'm on a soapbox and it
18 takes off.

19 But every time someone sells a stock, someone else
20 is buying it. Obviously, these two people have different
21 expectations, because one is selling at the price and one is
22 buying it at the price. That's what the investment process is
23 all about. And when you use these models, you have to make
24 certain assumptions as you -- both from the model itself, for
25 example, in DSEP is an annual version, a quarterly version, do

1 use spot yields, if you use a three-month average yield; plus,
2 what factors do you use for the growth rates or how many and
3 which ones, historic, future.

4 And the real question is what are investors
5 considering when they make investment decisions but that's
6 what drive these models, and different witnesses will have
7 different perceptions of that, and no one is right and no one
8 is wrong because, obviously, we like to believe we have more
9 right than others, but there is no right and wrong here.

10 That's why you estimate the cost of capital and
11 that's why you use more than one model because no particular
12 model is always right for all people, for all the utilities.

13 COMMISSIONER KONDO: I'm not criticizing your
14 analysis or your use of a range. I guess I don't understand
15 why it would not be reasonable, in your opinion, for me to
16 choose a number within the range, albeit on the low side of
17 the range.

18 MR. PARCELL: It would be.

19 COMMISSIONER KONDO: Okay. So --

20 MR. PARCELL: I'm not disagreeing with you at all.
21 It would be reasonable.

22 COMMISSIONER KONDO: So given business as usual --

23 MR. PARCELL: In some situations the range that
24 it's referred to is the range of reasonableness. The FERC,
25 well, they -- to fill up the cost of capital, they tell us

1 that, the range of reasonableness or reasonable range; so, the
2 answer is, yes, definitely.

3 COMMISSIONER KONDO: Can you explain to me -- I
4 know that your testimony is that if a decoupling mechanism is
5 approved by the Commission that your recommendation is the ROE
6 be at the lower end of your 9.5 to 10.5 ROE range. Correct?

7 MR. PARCELL: Correct.

8 COMMISSIONER KONDO: Could you explain to me why
9 the range does not shift downwards; in other words, the whole
10 range move down 50-basis points; so, your range with
11 decoupling would become 9.0 to 10.0?

12 MR. PARCELL: Well, in a sense, it wouldn't matter
13 and you could because if you stay at the midpoint, the
14 midpoint would go from 10 to 9.5, which is the same end result
15 anyway; so, it really doesn't matter how you get there. I
16 mean you could.

17 COMMISSIONER KONDO: I'm not saying I'm could
18 because there's a lot numbers that I could put in. I'm just
19 trying to understand what your conclusion would be with
20 decoupling.

21 Is there no range at that point?

22 Is the number just 9.5 or is it, in fact, their
23 range that now shifts your initial range downward 50-basis
24 points?

25 MR. PARCELL: Well, the way I've approached it, I

1 went to the bottom of the range, but I would not disagree with
2 someone else who will just shift the whole range and then you
3 make -- I don't think I'd agree with shifting the range and
4 going to the bottom end and become a double (inaudible).

5 COMMISSIONER KONDO: Well, let's talk about that,
6 because it sounds, to me, if you shift the range, that means
7 anything within the range you would consider to be reasonable
8 whether it's at the bottom half or the top half.

9 So why would you shift the range and allow someone
10 to select a number within the range and now say it's not
11 reasonable?

12 MR. PARCELL: Because --

13 COMMISSIONER KONDO: Can you explain that?

14 MR. PARCELL: -- part of the process of determining
15 what is reasonable is the adjustment mechanisms. So if you,
16 for example, approve no adjustment mechanisms, I don't think
17 the bottom of the range is as reasonable as the top end of the
18 range, just like I say, if you approved most or all the
19 adjustment mechanisms. I don't think the top of the range is
20 as reasonable as the bottom end.

21 COMMISSIONER KONDO: Sure, there's degrees of
22 reasonableness, and I think Dr. Morin would agree with that
23 statement that he would find the bottom of his range of
24 reasonableness to be less palatable if there's no decoupling
25 and the midpoint or the top end of that range, but, yet

1 nevertheless, I understood him to say it would be reasonable.

2 Do I understand you to have a different opinion, as
3 long as it's within the range?

4 Isn't it reasonable?

5 MR. PARCELL: Well, having heard what we said, and
6 I was not in disagreement with him at that time, and maybe I'm
7 using the words of you that we're on the same wave length,
8 that makes us appear that I'm thinking a different tactic but
9 I'm not. When I heard what he said, my views, at that point
10 in time, the same within my own range.

11 COMMISSIONER KONDO: It just so happens --

12 MR. PARCELL: So, you know, maybe you're doing word
13 games here and I don't mean "word games" in a negative sense,
14 but it's making me appear to come across saying something that
15 I'm not because I am not at odds with him on that concept.

16 COMMISSIONER KONDO: And, trust me, I'm not trying
17 to play word games with you.

18 MR. PARCELL: No, I understand.

19 COMMISSIONER KONDO: Your initial range 9.5 to
20 10.5. Correct?

21 MR. PARCELL: Yes.

22 COMMISSIONER KONDO: If I include decoupling, your
23 opinion is it's a 50-basis-points reduction. Correct?

24 MR. PARCELL: Yes.

25 COMMISSIONER KONDO: So, therefore, if I move your

1 range down 50-basis points with decoupling to 9.0 to 10.0 that
2 would be something that you would consider to be
3 unreasonable -- consider to be reasonable. Correct?

4 MR. PARCELL: For the context of the midpoint, yes.

5 COMMISSIONER KONDO: Okay. This is where you and I
6 are having our issue.

7 MR. PARCELL: I see we are, yes.

8 COMMISSIONER KONDO: Because what happens to the
9 bottom part of that range, if it's within the range, isn't it
10 reasonable?

11 MR. PARCELL: Well, see, as I interpret your
12 question, we shifted the range to reflect a reduction in
13 perceived risk.

14 COMMISSIONER KONDO: Correct.

15 MR. PARCELL: If the range has been shifted to
16 reflected reduction in perception of risk, it's no longer the
17 same rationale to go to the bottom of the range. It's already
18 been recognized. (Inaudible). It's already in there.

19 COMMISSIONER KONDO: Well, range, to me, maybe is a
20 different -- has a definition in range to you, because my
21 understanding of what the range is, is anything within those
22 two numbers, the high and the low. I can select anything and
23 it's reasonable. I'm getting the understanding that if we
24 shift the range down, you're telling me anything midpoint and
25 below is not reasonable; is that correct?

1 MR. PARCELL: Yes, because -- and, I guess, why
2 we're different in wave lengths, is why we shifted the range.
3 Why did we move the range is where you and seem to be
4 different vibes here.

5 COMMISSIONER KONDO: We moved the range to address
6 the reduction in risks because of or associated --

7 MR. PARCELL: Okay.

8 COMMISSIONER KONDO: -- with decoupling.

9 MR. PARCELL: Okay.

10 COMMISSIONER KONDO: Yes?

11 MR. PARCELL: Yes.

12 COMMISSIONER KONDO: Can you explain to me then why
13 the entire range, that 100-basis-point range that exists,
14 absent decoupling, why that entire range did not shift
15 50-basis points towards the left, towards the downward
16 direction, why is that not the scenario, because what I
17 understand you to be saying is we're going to shift 50-basis
18 points to the left --

19 MR. PARCELL: Yes.

20 COMMISSIONER KONDO: -- not a hundred basis points
21 because your range is a hundred --

22 MR. PARCELL: Yes.

23 COMMISSIONER KONDO: -- so -- strike that?

24 MR. PARCELL: I feel like a Company witness here.

25 (Laughter.)

1 COMMISSIONER KONDO: No, I struggle to understand,
2 I guess, the logic in what you're saying because it seems, to
3 me, if we have a range of 100-basis points between the low
4 points and the high point, absent decoupling, and you're
5 telling me decoupling will shift the risks, which is
6 equivalent to a 50-basis-points reduction in the ROE, why the
7 entire range does not shift 50-basis points rather than just
8 choosing the low point of the initial range?

9 MR. PARCELL: Well, as I think I've said before,
10 you could do so, but you'd have to employ some different logic
11 to go to the bottom end. I've realized I said that any point
12 in the range is feasible, but by shifting the range because of
13 risks, the logic or the bottom of the range, which I'm
14 proposing, I would not be on very solid ground there, if I did
15 that.

16 COMMISSIONER KONDO: Okay. Dr. Morin,
17 characterized your 50-basis-point reduction as being
18 arbitrary?

19 MR. PARCELL: I heard that, yes.

20 COMMISSIONER KONDO: What's your response to that?

21 MR. PARCELL: Well, any reduction or change to a
22 number in this context can be interpreted by some definition
23 of arbitrary because there's no formula here. There is no
24 formula or model that can be used to measure the impact of
25 decoupling; and, if there was one today, it wouldn't be proper

1 five years from now because there would be more decoupled
2 companies then and the parameters would have changed.

3 May I give an example?

4 Decoupling, as we know of it today, got started in
5 the LDC or Local Distribution Natural Gas industry, and it
6 didn't -- it wasn't called decoupling at first. It was
7 generally referred to as whether normalization adjustments
8 where a gas utility could change rates based upon warmer or
9 colder than normal weather. Since that point in time, a lot
10 of LDCs have WNAs of Weather Normalization Adjustments, which
11 is a form of decoupling.

12 And this process has been going on for probably 10
13 years. And when it first occurred, there were people like
14 myself who proposed adjustments to return on equity to reflect
15 the low risk of WNAs. Well, WNAs is so prevalent now that any
16 approximate number of companies you select LDCs, at least some
17 of those companies or some of their subsidiaries or some of
18 the states in which they operate in, have some form of WNA.

19 So if, for example, there was 25-basis points
20 different in 1998, it could be less than that now, if any,
21 because your proxy groups now have them.

22 To move forward, LDCs are now asking for further
23 enhancements for decoupling like true decoupling; and, so when
24 we hear someone say, Well the Natural Gas Industry is
25 essentially decoupled, that's misleading because there's a lot

1 of WNAs, which is only a portion of it.

2 COMMISSIONER KONDO: And WNA stands for Weather --

3 MR. PARCELL: Weather Normalization Adjustment.

4 So that's my roundabout way of saying that my WNA
5 10 years ago is not the impact of the WNA today and it's only
6 one aspect of decoupling and most very few LDCs are truly
7 decoupled. It's mostly weather. Some are further along than
8 that, the values went into it for Southwest Gas, for example;
9 and, Atlanta Gas Lighting, there's some LDCs that have true
10 decoupling, but most do not, but most have weather
11 normalization.

12 COMMISSIONER KONDO: All right. It might take away
13 from your response before you educated me on the Weather
14 Normalization Adjustment that gas utilities have is that the
15 determination of the ROE reduction that is appropriate for a
16 decoupled electric utility is extremely subjective. Correct?

17 MR. PARCELL: Yes.

18 COMMISSIONER KONDO: Can you tell me --

19 MR. PARCELL: Well, it's surely objective
20 (inaudible). It's surely objective.

21 COMMISSIONER KONDO: Well, certainly, you told me
22 there's no formula --

23 MR. PARCELL: There's no formula.

24 COMMISSIONER KONDO: So it's based upon your
25 experience and subjective determination as to what's

1 appropriate --

2 MR. PARCELL: That's right --

3 COMMISSIONER KONDO: -- correct?

4 MR. PARCELL: -- and perceptions, yes.

5 COMMISSIONER KONDO: Can you give me some comment
6 as to the approach that Dr. Morin has used to determine that
7 25-basis points is the appropriate reduction?

8 MR. PARCELL: I will try to do so, yes. He
9 mentioned in his testimony, as well as this morning, two
10 factors he used. One factor was a differential in yields
11 between single A and BBB utility bonds, which is about
12 30-basis points, and I actually do the same in my own
13 testimony.

14 My response to that is the cost of equity is higher
15 when it comes to debt; so, if the differential costs of debt
16 was 30-basis points, the difference would be higher for the
17 cost of equity; so, that's my response to that aspect of it.

18 COMMISSIONER KONDO: That's what he called the
19 "yield spread"?

20 MR. PARCELL: Yes -- well, now, it could be called
21 a yield spread, yes, as opposed to what the yield spread it
22 reflects the difference of yields over different time periods,
23 yes.

24 And the second aspect is the difference in betas
25 between gas companies and electric companies in the

1 differential into CAPMs, Capital Asset Pricing Models; and, my
2 response to that is it really ties in, what I just told you a
3 few minutes ago, it's true that a lot of LDCs have some level
4 of decoupling because it's not true that most have complete
5 decoupling in the same context as being proposed here.

6 So that's how he and I were different. That's how
7 he and I would agree to disagree on those.

8 COMMISSIONER KONDO: And I --

9 MR. PARCELL: And I think the world of Dr. Morin.
10 I'm not going to sit across the table from him and bad mouth
11 his analogy but that's how I disagree with him. Fair enough.

12 COMMISSIONER KONDO: I actually thought he had more
13 factors than just two.

14 MR. PARCELL: No, that's the two I recall him
15 saying this morning but.

16 COMMISSIONER KONDO: My understanding, from my
17 discussion with Dr. Morin this morning, is that, from his
18 perspective, at least for purposes of determining the
19 appropriate reduction to ROE, it is not crucial for him to
20 know or understand the details of the various mechanisms that
21 we're talking about: Decoupling, Renewable Energy,
22 Infrastructure Surcharge, Purchase Power Adjustment Clause.

23 Do you agree with that?

24 MR. PARCELL: I certainly do.

25

1 COMMISSIONER KONDO: So it's the fact that we have
2 something, not the details of the program, at least for
3 purposes of --

4 MR. PARCELL: I wouldn't quite --

5 COMMISSIONER KONDO: -- the rating agency?

6 MR. PARCELL: -- I wouldn't quite put it that way.
7 The details are not important for a financial person because
8 we don't implement it. What's important is the existence of
9 it and the impact of it. In other words, if a decoupling plan
10 is going to give a utility a certain known (inaudible) of
11 revenues, from a financial person, we don't particularly care
12 how it happens just as long as it works; and, I perceive that
13 the rating agencies feel the same way, but I don't have any
14 first-hand knowledge of that. But, from our perspective, it's
15 the bottom line. What's going to happen and if a good thing
16 happened that's risk reducing.

17 COMMISSIONER KONDO: Do you have an understanding
18 as to the decoupling mechanism that has been proposed by the
19 Company as well as the Consumer Advocate's office?

20 MR. PARCELL: My understanding is based upon --
21 well, the answer is -- the short answer is a modified, yes.
22 My understanding is, based upon my review of, for example,
23 HECO's Form 10Q for the third quarter of 2008, that's the
24 answer given in the interrogatories as to what information was
25 given to the rating agencies, and I reviewed that.

1 I reviewed HECO's testimony; so, that forms the
2 basis of my knowledge, not going into the -- I have not read
3 the agreements, I have not tried to figure them out, but I
4 have read what's been told to investors and, in turn, the
5 rating agencies because that's what the DR was asking for.

6 COMMISSIONER KONDO: And I take it from that
7 response that you have not read any pleadings of the
8 decoupling docket. Correct?

9 MR. PARCELL: No, I have, because when this issue
10 came up in the course of the preparation of my testimony, I
11 called first my client and then my co-consultants, who were
12 involved in the decoupling case, and I had sent to me the
13 pleadings and the agreements that I read in the process of
14 putting my testimony together just so I have some basic
15 knowledge of it, and I think I cited some of those in my
16 testimony; but, I read it from a broad base perspective, not
17 from the perspective of trying to create a situation where I
18 could do it myself because I could not.

19 COMMISSIONER KONDO: What pleadings did you read?

20 MR. PARCELL: Well, there was the agreement between
21 the Consumer Advocate and HECO; probably, the agreement dated
22 October 12th, but I don't know it for a fact. I've got a
23 notebook in my office that's but two-inches thick of
24 information that I reviewed, but I did not bring it with me,
25 and I could not tell you what those documents are, as I sit

1 here. I can have it provided, but I can't tell you as I sit
2 here.

3 COMMISSIONER KONDO: Do you understand the proposal
4 includes a Revenue Adjustment Mechanism?

5 MR. PARCELL: Yes, I do.

6 COMMISSIONER KONDO: Do you understand how that
7 works?

8 MR. PARCELL: Only to the extent that it separates
9 the revenues from usage; but, the mechanics of it, no, I do
10 not understand the mechanics of it.

11 COMMISSIONER KONDO: What is that, "revenues from
12 usage"?

13 What do you mean by that?

14 MR. PARCELL: In other words, that what's
15 decoupling means, if a customer uses less electricity, because
16 of any reason, the Company revenues are about the same.
17 Another aspect, which is often used in the pipeline industry,
18 is straight fixed (inaudible) rate design, which means almost
19 all the costs of putting it into the customer charge at the
20 demand charge rate.

21 COMMISSIONER KONDO: Mr. Parcell, I think that
22 you're describing the revenue balancing account, the RBA. I'm
23 asking if you have an understanding as to what the Revenue
24 Adjustment Mechanism is that is included in the proposal?

25 MR. PARCELL: To my knowledge, it's just a method

1 of measuring the delta, if you will, to be accounted for in
2 the RAM; but, how it works, I do not know.

3 COMMISSIONER KONDO: Assuming that the Revenue
4 Adjustment Mechanism is not like you described; but, in fact,
5 it allows the Company to include in rate base outside of a
6 rate case certain plant conditions, assume that, okay?

7 MR. PARCELL: Okay.

8 COMMISSIONER KONDO: Does it matter to you, for
9 purposes of your work, as to whether or not the revenue
10 decoupling mechanism includes such a RAM provision?

11 MR. PARCELL: Well, let me say that I have seen
12 references to what you referred to in terms of the rate base
13 additions. I didn't realize how it came into play, but I
14 realized, from my reading of the documents, that that was
15 covered through the agreements; but, you know, which aspect, I
16 could not tell you.

17 COMMISSIONER KONDO: No, that's not my question.

18 My question to you is assume that the RAM mechanism
19 is, as I've described --

20 MR. PARCELL: Okay.

21 COMMISSIONER KONDO: -- would that make a
22 difference to you for purposes of your work in evaluating the
23 reduction to the ROE that is associated with the decoupling
24 mechanism whether or not the decoupling mechanism includes a
25 RAM provision or not?

1 Do you understand my question?

2 MR. PARCELL: I think I do.

3 And my answer is I don't think it matters and
4 here's why. A DR was asked --

5 COMMISSIONER KONDO: What is a DR?

6 MR. PARCELL: IR.

7 COMMISSIONER KONDO: IR --

8 MR. PARCELL: Right.

9 COMMISSIONER KONDO: -- gotcha.

10 MR. PARCELL: DR is a Data Request. IR is used as
11 Information Request here. An IR was asked of the Company as
12 to what portion of the utility's revenues were potentially
13 subject to the decoupling. I can answer it. I have it right
14 here. CA-RIR-31. And the answer began with -- I'll just read
15 the first sentence -- The sales decoupling component of
16 decoupling, in a sense, would affect all revenues. Its actual
17 revenue would be adjusted back to the test year revenue
18 requirement. And to the extent that plant additions or the
19 fact I entered that, I would have anticipated that would have
20 been included.

21 COMMISSIONER KONDO: Assuming that it's not
22 included in that mechanism, assume this --

23 MR. PARCELL: Okay.

24 COMMISSIONER KONDO: -- that you have a revenue
25 balancing account that adjust the difference in the projected

1 sales or revenues with the actual revenues that the Company
2 received, assume that to be one part of sales decoupling --

3 MR. PARCELL: I will do so.

4 COMMISSIONER KONDO: -- which I assumed, from your
5 previous answer, to be the traditional sales decoupling type
6 of model --

7 MR. PARCELL: Okay.

8 COMMISSIONER KONDO: -- is that correct?

9 MR. PARCELL: Yes.

10 COMMISSIONER KONDO: And assume there's another
11 provision called a Revenue Adjustment Mechanism that allows
12 the Company to include in rate base and, therefore, recover
13 the amount that is included in rate base outside of a rate
14 case, assume that, okay --

15 MR. PARCELL: Okay.

16 COMMISSIONER KONDO: -- does it matter for purposes
17 of your analysis as to the appropriate reduction in the ROE if
18 a decoupling mechanism is approved by the Commission, does it
19 matter whether or not the decoupling mechanism includes a RAM,
20 and that's the rate base addition?

21 MR. PARCELL: I hate to sound like a witness but it
22 does and it doesn't and here's why. When I refer to 50-basis
23 points, I'm referring to what I perceive to be the totality of
24 the adjustments being proposed in this case; one, of which, a
25 major one of which, is the decoupling; in other words, the

1 PPA, Purchase Power Adjustment, and my 50-basis points
2 reflects a perception of all of those.

3 Now your question is if it's outside of decoupling,
4 well, in a sense, if decoupling covers more than the others,
5 you would think it would matter, but I'm looking at the
6 totality in my perception of the totality here is that it's a
7 situation where the Company will very likely earn a return
8 very close to its authorized return because almost everything
9 that could be a factor in it is covered, not everything but
10 almost; so, that's the perception that I'm offering and that
11 is decoupling, and that's why I'm saying yes and no.

12 COMMISSIONER KONDO: I would --

13 MR. PARCELL: And I hate to be trying to run around
14 here but that's my perception.

15 COMMISSIONER KONDO: And that's okay. My purpose
16 of the question wasn't to question your 50-basis points
17 recommendation. It was really in response to one of your
18 observations about the certainty and certain recoveries and
19 that moves the reduction in the eyes of the raters; and, so I
20 was just trying to probe to understand your understanding of
21 the recovery that would be through the proposed decoupling
22 mechanism and not to be argumentative, but it's my impression
23 that your understanding is limited, and you would agree with
24 me?

25 MR. PARCELL: I would agree with that, it goes for

1 the mechanics, yes.

2 COMMISSIONER KONDO: Not only the mechanics but
3 actually what is going to be recovered through the mechanism.
4 Correct?

5 MR. PARCELL: Through that mechanism, yes, I agree
6 with that. I would agree with that.

7 COMMISSIONER KONDO: And could you explain to me,
8 now moving to your 50-basis points in total conclusion, how
9 you can come to that conclusion if you do not know the
10 dollars, the amounts, that would be recovered through various
11 mechanisms?

12 MR. PARCELL: Well, I really can't, but what I can
13 say is that my belief is, my perception is that creating a
14 situation where a utility goes from, if you will, business as
15 usual, where you fight to earn your cost of capital like
16 everyone else does, and you go into a situation where suddenly
17 you are much more likely to earn close to it, that's certainly
18 a substantial reduction in risk, how much, there's no way to
19 measure it, and what I'm saying, from my judgement standpoint,
20 goes to the bottom end of the cost of capital range of
21 reasonableness; but, there's no way to measure it your way
22 there, there's no footprints per se and, frankly, that's just
23 the best I can do.

24 COMMISSIONER KONDO: And Dr. Morin had provided us
25 some numbers from the AUS utility reports that he had

1 attached, I believe, to one of his -- or maybe an IR or
2 something; anyway, he had provided us numbers of allowed ROE
3 over the sampling that's contained in the report and the
4 earned ROE for those companies.

5 Do you recall that discussion I had with Dr. Morin
6 this morning?

7 MR. PARCELL: I do.

8 COMMISSIONER KONDO: And the numbers that you
9 provided, and I had hope I wrote these down correctly, the
10 allowed ROE was 10.75 percent and the earned ROE was 10.6 and
11 granted that I don't know the full context of that, but those
12 are the numbers that you provided to me, could you explain to
13 me, given your suggested ROE of 9.5 percent to 10.5 percent,
14 why you would suggest that that's reasonable, given the actual
15 numbers and the approved number that Dr. Morin provided to us
16 this morning vis-a-vis the whole range of utilities, electric
17 utilities?

18 MR. PARCELL: Well --

19 COMMISSIONER KONDO: Do you understand my question?

20 MR. PARCELL: I think so. I have in front of me
21 now a couple of pages from the October 2009 AUS utility
22 reports, and there are two sets of companies that they
23 recorded on, and they're germane to us, and one is called
24 combination electric gas companies and one is called electric
25 companies. Under the column regulation, for electric

1 companies, the average allowed ROE is stated to be
2 10.71 percent.

3 COMMISSIONER KONDO: I'm sorry, what category was
4 that, the combo company?

5 MR. PARCELL: No, that's the electric.

6 COMMISSIONER KONDO: Okay, thank you.

7 MR. PARCELL: These companies are publicly-traded
8 companies, so these are the holding companies and some of
9 these rates return, we don't know when they were authorized
10 because there's a date for the order date but only about a
11 third of the companies have a date there so some of these
12 authorized returns would go back to several years.

13 The percent return of book value, which is return
14 on equity, the average for that same group, for whatever
15 period is covered here, and I don't know, the latest year, I
16 would assume, is 10.4, and believe it or not, if I went to the
17 combination electric gas companies, the averages are the same,
18 and the average for the authorized return is the 10.71 and
19 return on book is 10.4.

20 COMMISSIONER KONDO: Are you working off of the
21 same report that Dr. Morin worked off this morning?

22 MR. PARCELL: I think so. And I recall the numbers
23 he -- I think the numbers he gave was 10.7 and 10.6, but I may
24 I have a different issue here.

25 COMMISSIONER KONDO: He gave 10.75 and 10.6.

1 Do you have an understanding as to why his numbers
2 are not consistent with your numbers?

3 MR. PARCELL: It would be a different issue. I
4 have an October of 2009 and he may had an earlier one. I
5 don't know. But, like I said, these are not utilities per se.
6 These are the holding companies. For example, one is listed
7 as Hawaiian Electric Industries, that's one of the companies
8 of the a electric company, and the return on common equity
9 listed is 12.1 percent. I would say HECO is not earning
10 12.1 percent, but 12.1 is the number for HEI in this
11 publication, and the allowed return on equity listed is 11.82
12 for HEI.

13 COMMISSIONER KONDO: I'm sorry, what was that
14 number?

15 MR. PARCELL: 10.82.

16 COMMISSIONER KONDO: That's the actual recovery?

17 MR. PARCELL: No, that's the authorized return
18 listed here, and the actual return earned is listed to be
19 12.1.

20 COMMISSIONER KONDO: Say that again.

21 MR. PARCELL: That is the holding Company.

22 COMMISSIONER KONDO: The actual return listed on
23 that report is 12.1 per HEI; is that correct?

24 MR. PARCELL: Yes.

25 COMMISSIONER KONDO: Is that what I understood you

1 to say?

2 MR. PARCELL: That is correct.

3 COMMISSIONER KONDO: And your understanding from
4 the testimony in this docket is that the HECO Company is not
5 earning 12.1 percent actual return on --

6 MR. PARCELL: Right, this is not HECO. This is
7 HEI.

8 COMMISSIONER KONDO: I understand that. But my
9 question just relates to HECO.

10 MR. PARCELL: The answer is yes.

11 COMMISSIONER KONDO: What is your understanding as
12 to the ROE that is actually being earned by HECO?

13 MR. PARCELL: It's the -- the number I heard
14 yesterday was, let's see, what have I written down here.

15 COMMISSIONER KONDO: In the six range?

16 MR. PARCELL: Yes. I think it was 6.40 for period
17 ending June 30 of this year and 6.52 for the period of
18 September of this year.

19 COMMISSIONER KONDO: So I take it you take issue
20 with the use of that report for the purposes that Dr. Morin
21 was using it because of his, perhaps, discrepancy in the
22 actuals or discrepancy in the companies that are the numbers
23 to which the numbers were linked?

24 MR. PARCELL: I won't go that far. You know, I'm
25 sitting here like a Company witness again; but, I think

1 Dr. Morin was trying to answer a question of yours, there's
2 some information he had available to him, but what I would
3 tell you is that information, you need to take it as a grain
4 of salt, because it does refer to the holding companies and
5 not the utilities, per se.

6 COMMISSIONER KONDO: How many electric companies do
7 you understand to have an approved decoupling revenue --
8 revenue decoupling mechanism?

9 MR. PARCELL: I know of PEPCO Power Company that
10 has it in the Maryland case, in which I was in, in D.C., a
11 sister company owned by PEPCO holdings, Delmarva Power &
12 Light, has a pending case in Delaware where it's an issue
13 there, and I'm not sure if that was approved and something was
14 approved in the prior case, but I can't tell you, as I sit
15 here, if it was the so-called DSA or not.

16 Some utilities in Washington State had decoupling
17 on a trial basis, but I don't think that they're in effect at
18 this time. Future Energy had decoupled a pilot program for a
19 while, but I think that pilot program is not in effect at this
20 time.

21 I don't know firsthand, but I've seen a reference
22 to California companies, and, as I sit here, let me share
23 something with you. As I was preparing to come out here over
24 the weekend, I went online and tried to do some research on
25 decoupling, and I came across a map that says electric

1 decoupling in the U.S., as of August 2009, which I will share
2 that, you know, it violates every rule in the case here, but
3 if you want it, it's here, is what I'm saying. And another
4 thing --

5 COMMISSIONER KONDO: And what does it tell you?

6 Does it answer the question about how many electric
7 utilities currently have a decoupling mechanism?

8 MR. PARCELL: It would tell how many states did,
9 yes, yes, it would.

10 COMMISSIONER KONDO: From that --

11 MR. PARCELL: But it didn't identify the utilities
12 but it identified the states, yes, it would. The answer is
13 yes.

14 COMMISSIONER KONDO: And how many states are listed
15 on that map as having an electric utility decoupling mechanism
16 that has been approved?

17 MR. PARCELL: The ones that adopted electric
18 decoupling, identifies eight states. They're in California,
19 Oregon, Idaho, New Mexico, Wisconsin, New York, Vermont,
20 Massachusetts, and Maryland and Delaware. That's eight,
21 that's what's showing here.

22 COMMISSIONER KONDO: I count 10, the states you
23 listed is that --

24 MR. PARCELL: Well --

25 COMMISSIONER KONDO: -- different than what you're

1 calculating?

2 MR. PARCELL: -- there's squares here and some of
3 the squares have arrows going different directions.

4 (Laughter.)

5 MR. PARCELL: But the legend says, I know I'm from
6 the South, but I'm not that slow.

7 (Laughter.)

8 MR. PARCELL: The legend says that there are eight.

9 COMMISSIONER KONDO: So any of these 10 anyway?

10 MR. PARCELL: Yes.

11 (Laughter.)

12 COMMISSIONER KONDO: Okay. Are you aware of
13 decoupling mechanisms that have been approved by electric
14 utilities in states other than these 10 that you listed?

15 MR. PARCELL: I am not. I'm not actually aware of
16 all of these, but I came across this on the internet.

17 COMMISSIONER KONDO: I understand.

18 Specifically, are you aware of electric utilities
19 that have an approved decoupling mechanism -- I guess, I'm
20 trying to get a feel, Mr. Parcell, as to a better
21 understanding as to the number of electric utilities that have
22 a revenue decoupling mechanism that has been approved. You
23 know, Dr. Morin, this morning, talked to me about a number,
24 which I recall being five, even though I think we talked about
25 some that probably can add to that; so, at least, less than 10

1 anyway.

2 So I'm trying to understand whether or not that is
3 reasonably accurate or whether you are aware of even more
4 electric utilities that have an approved decoupling mechanism?

5 MR. PARCELL: I have another document in front of
6 me dated March of 2009 but electric -- the Edison Electric
7 Institute, and that list the states and it also gives you
8 further information like approved, pending, pilot, et cetera,
9 but it does not identify utilities but it identifies orders.

10 COMMISSIONER KONDO: Identifies what?

11 MR. PARCELL: Orders, order numbers.

12 COMMISSIONER KONDO: If you don't know, that's okay
13 too. I'll accept that answer. I'm just trying to get an
14 count from you as to your understanding as --

15 MR. PARCELL: No, I don't know.

16 COMMISSIONER KONDO: Okay.

17 MR. PARCELL: I know the two PEPCO companies and
18 those are the two that I'm aware of because I've seen
19 information on the orders on those, and I was in one of those
20 two cases.

21 COMMISSIONER KONDO: Can you explain why it was not
22 important, for purposes for your analysis and conclusion, to
23 do more research as to how other states within electric
24 utilities that has revenue decoupling, how the ROE issue has
25 been handled?

1 MR. PARCELL: Well, I'll apologize for not doing
2 so, but that there's so few of them. I would not feel
3 comfortable trying to tell you that to do something based upon
4 what only one or two other states have done, that's a fairly
5 small sample and it sort of puts you back.

6 COMMISSIONER KONDO: But (inaudible) states, did
7 it?

8 MR. PARCELL: Well, I'm only aware of two, though.

9 COMMISSIONER KONDO: You're only aware of two then?

10 MR. PARCELL: I'm only aware of two.

11 COMMISSIONER KONDO: Did you not feel that it was
12 important for you to look, even if it's just two, look at how
13 the Commission considered the reduction in ROE that's
14 associated with a decoupling mechanism?

15 Did you not think that was important for you to do
16 in reaching your conclusion?

17 MR. PARCELL: I guess, in retrospect, I should
18 have, and I apologize for not doing so, but I did not.

19 COMMISSIONER KONDO: The fact that you did not and,
20 in retrospect, you think maybe you should, what does that do
21 to your recommendation as before the Commission now?

22 MR. PARCELL: I don't think it changes my
23 recommendation or what I'm proposing. What it would change is
24 the amount of information I would be giving you as to what
25 someone would have done, which might be useful to you; but, I

1 would not base my proposal based upon what I found someone
2 else doing.

3 COMMISSIONER KONDO: So it doesn't matter, for
4 purposes of your opinion, as to how other electric utilities,
5 who have decoupling, how their ROE has been adjusted, is that
6 what I understood you to say?

7 MR. PARCELL: I wouldn't go that far up.

8 COMMISSIONER KONDO: I'm sorry?

9 MR. PARCELL: I wouldn't go that far up when you
10 said I would not base my recommendation based upon that.

11 COMMISSIONER KONDO: Oh, your recommendation
12 from --

13 MR. PARCELL: Well, that's like the equivalent of
14 me saying that if the average authorized return on equity by
15 the U.S. Utility Commission, for the first six months to
16 10.25 percent; therefore, I'm recommending 10.25 because
17 that's what the -- that's where the hurt is going. That's not
18 what I'm hired to do. I'm hired out to give recommendations
19 and the same would apply to my decoupling recommendation.

20 I can tell what other states have done, but I'm not
21 certain -- I'm not doing you a service by just doing that and
22 not doing my own analysis.

23 COMMISSIONER KONDO: I'm not suggesting that, but
24 is not the result of what the states have done, is that not
25 important for purposes of your analysis?

1 MR. PARCELL: It may be more so -- it may be more
2 important to you than it would be to me.

3 COMMISSIONER KONDO: Could you explain why that is?

4 MR. PARCELL: Yes, because I'm an analyst. I'm an
5 expert witness. I'm supposed to tell you what I think based
6 upon on an analyses, not what someone else has done.

7 COMMISSIONER KONDO: But as part of that analysis,
8 you look at what other commissions have done with respect to
9 electric utilities. Correct?

10 MR. PARCELL: Only to the extent that it reflects
11 in the stock price of the models; and, no, I don't go to other
12 commissions' awards and make my recommendation based upon
13 that, no.

14 COMMISSIONER KONDO: You don't consider the ROE
15 that has been approved in other dockets by other commissions,
16 you don't consider that?

17 MR. PARCELL: Not as a standard in my
18 recommendation, no.

19 COMMISSIONER KONDO: Then how did you --

20 MR. PARCELL: It may factor into my analysis, but,
21 no, I don't consider it, no. Never have. I've been doing
22 this for almost 40 years, and I've never done that.

23 COMMISSIONER KONDO: I want to make sure I
24 understand what you're saying.

25 You're saying that the ROEs that other commissions

1 have authorized for other electric utilities that it's
2 irrelevant to your analysis; is that correct?

3 MR. PARCELL: Yes. It's not irrelevant with your
4 consideration; but, it's irrelevant to my analysis. My
5 analysis looks at the market: DCF, CAPM, compare learnings.
6 That forms the basis of my recommendation, not what someone
7 else has done. So the answer is yes.

8 COMMISSIONER KONDO: I asked this question to
9 Dr. Morin this morning, and I want to get a different
10 perspective.

11 In your opinion, what's more important, the
12 opportunity to earn, for instance, an ROE of 11 percent or is
13 it the actual achieved ROE?

14 MR. PARCELL: In the end -- at the end of the day,
15 it's what you earn. The quantitative benchmarks of Standard &
16 Poor's used three factors. FFO to debt. That means Funds
17 From Operations divided by debt, and FFO, the interest and
18 total debt to total capital. These are ratios based upon, at
19 least in the case of FFO, those are the actual cash or cash
20 earnings of the companies; so, it's not what's authorized.
21 It's what's achieved, and that's what's important to rating
22 agencies. So I think it's more important is the likelihood of
23 which you're going to earn; and, I'm not sure I can give you a
24 different perspective but that's --

25 COMMISSIONER KONDO: No, that is a different

1 perspective. But a different answer then, what Dr. Morin gave
2 me this morning, does that mean that if HECO has an approved
3 ROE of 10.7 percent and is actually achieving an ROE of
4 6.4 percent, the Company is worse off than if it had approved
5 ROE of 9.5 percent and is actually achieving an ROE of 8.5
6 percent, is that what I understood your conclusion to be?

7 MR. PARCELL: The short answer would be yes. In
8 other words, what's important is what's actually earned. Now,
9 of course, the authorized return factors in many cases, to
10 which you can earn, but what you -- the bottomline after the
11 fact is what's important.

12 Now you said the opportunity. The opportunity is
13 governed more than just on the authorized return. It's the
14 authorized return in the mechanisms you have available to you
15 to earn it.

16 COMMISSIONER KONDO: I'm sorry, the Chair has
17 reminded me that we should break; so, if you don't mind, we
18 can continue after the break?

19 MR. PARCELL: Okay.

20 COMMISSIONER KONDO: Thank you.

21 CHAIRMAN CALIBOSO: Let's go on to recess and
22 return at 3:30.

23 We are in recess.

24 (Whereupon, at 3:10 p.m., a recess was taken, and
25 the proceedings resumed at 3:29 p.m., this same day.)

1 CHAIRMAN CALIBOSO: Good afternoon.

2 This hearing is reconvened. We're continuing with
3 the Commission's questions on cost of capital.

4 Commission Kondo, you may continue.

5 COMMISSIONER KONDO: Mr. Parcell, I want to follow
6 up our discussion that we had just before the break.

7 Specifically, I asked these questions to Dr. Morin
8 about, and I'd like to get your understanding as well, the
9 expenses set forth in the test year that are part of the
10 settlement, would you agree that, from the Company's
11 perspective, those are reasonable estimations of the expenses
12 to be incurred?

13 I don't think that was a very good question.

14 Let me try again.

15 Is it reasonable to assume that the test year
16 expenses agreed upon for purposes of the settlement are a
17 reasonable approximation of the expenses that the Company will
18 incur?

19 MR. PARCELL: It's my understanding that the
20 purpose of using a future test year; in this case, 2009, is to
21 estimate the expenses being incurred during that year; so,
22 with that understanding, the answer is, yes, it includes
23 capital expenses, capital costs.

24 COMMISSIONER KONDO: Assuming no extraordinary
25 costs or occurrences, is it reasonable to assume that the

1 Company should be able to manage its expenses, that is to keep
2 the expenses to approximate the amounts agreed upon in the
3 settlement?

4 Is that a reasonable assumption?

5 MR. PARCELL: Speaking, as a cost of capital, I
6 would say, yes; but, I can't speak from an accounting witness'
7 perspective; but, from my perspective, the answer is yes.

8 COMMISSIONER KONDO: Okay. So let's use those two
9 assumptions.

10 Assuming that the test year expenses are
11 reasonable, estimated the actual expenses and then you input
12 management companies' expenses are approximately equal to the
13 test year expense amount, would those two assumptions, under
14 the decoupling mechanism that you understand, the Company to
15 have proposed, the Company will earn its revenue requirement.
16 Correct?

17 MR. PARCELL: That's the intent of it, yes.

18 CHAIRMAN CALIBOSO: Which means that the Company
19 will achieve its return on equity. Correct?

20 MR. PARCELL: Well, it's certainly very close to
21 it, as I indicated to you earlier today, yes.

22 COMMISSIONER KONDO: Going to back to what we were
23 talking about right before the break about the preference in
24 your opinion was -- the importance, in your opinion, of the
25 actual earned ROE versus the opportunity to earn an ROE,

1 assuming the decoupling, would it be your opinion that the
2 Company would be better off with an approved ROE of, for
3 example, 9.5 that results in an achieved ROE for the purposes
4 of the example of 9.0 versus the Company with an ROE of 10.7
5 and an actual ROE of 6.4?

6 MR. PARCELL: If those are my two choices, the
7 answer is yes. And, of course, that's the reason why I would
8 not want to be -- make a recommendation based upon authorized
9 returns on equity because it would have to factor into
10 consideration things like that.

11 COMMISSIONER KONDO: Don't you use proxy companies?
12 Don't you use companies --

13 MR. PARCELL: Absolutely.

14 COMMISSIONER KONDO: And don't you look at the ROEs
15 that have been approved and for those companies?

16 MR. PARCELL: No. That's -- I would -- that would
17 be circular. I look at the market cost of capital for these
18 companies. Now the market cost of capital may reflect or it
19 should reflect the (inaudible) but, no, that is not a factor
20 and I --

21 COMMISSIONER KONDO: So --

22 MR. PARCELL: -- have never seen a witness cost of
23 capital witness make a recommendation based upon the
24 authorized returns of other companies.

25 COMMISSIONER KONDO: Well, your ROE calculation

1 came out to, for instance, 5.0, wouldn't it be prudent for you
2 to compare that ROE with the ROE that had been approved for
3 other similar electric utilities companies to determine
4 whether or not you are even in the ballpark?

5 MR. PARCELL: Well, surely, the person
6 cross-examining would want to do something like that but --

7 COMMISSIONER KONDO: You don't do that?

8 MR. PARCELL: I would -- I would know if that would
9 be a factor that goes into my recommendation. And let me say
10 this, the return for my proxy companies is not what I'm
11 interested in. I would want to know, in general, what's being
12 authorized, but that is not a factor that I consider and is
13 not an input into my recommendation or determinations, not at
14 all.

15 COMMISSIONER KONDO: And that's a good point,
16 because I apologize for implying that, just because you use it
17 to compare, that it would be an input into your calculations.
18 I think --

19 MR. PARCELL: I mean, but the weather man should
20 look outside the window before he makes his forecast on TV,
21 but he still uses his own models to determine what the weather
22 should be and the cost of capital guy should be the same way.

23 COMMISSIONER KONDO: Assuming that the Commission
24 were to authorize an ROE of 9.5 percent, in fact, that's what
25 we're down to, 9.0 percent, with the decoupling mechanism,

1 with that, what would that do, in your opinion, with respect
2 to the financial credit rating of the Company?

3 MR. PARCELL: I do not know.

4 COMMISSIONER KONDO: Do you believe that it would
5 result in a downgrade of the Company?

6 MR. PARCELL: I do not know.

7 COMMISSIONER KONDO: Given that the Company is
8 intending to come in for a rate case with a test year of 2011,
9 do you find it to be substantial risk for the Commission to
10 authorize an ROE on the lower end of the spectrum versus in
11 the middle or higher end of the spectrum?

12 MR. PARCELL: In the context of regulation in
13 Hawaii, rate regulation in Hawaii, where you use perspective
14 test years, I don't think the coming back for a rate case
15 would influence what the fair return should be in this case.

16 COMMISSIONER KONDO: Well, the reason why I used
17 the expected future rate case is for the purposes or for the
18 purpose of putting a timeframe as to how long a decision in
19 this case will be in effect.

20 So, in other words, if we make a mistake here,
21 quote, mistake, that the Commission will have an opportunity,
22 if it doesn't do so in between rate cases, to readdress that
23 in two years; so, in my opinion, it doesn't seem like it's too
24 far down the road. That's the reason why I referenced the
25 intent of the Company, as I understand it, to file a 2011 test

1 year rate case. Okay.

2 Are we on the same page now?

3 MR. PARCELL: I consider your logic there, yes.

4 COMMISSIONER KONDO: So could you now answer that
5 question as to whether or not, because of that expectation,
6 that in two years the Company will be back in here for further
7 discussion about what the appropriate rate should be and the
8 appropriate ROE, is it not reasonable for the Company or the
9 for the Commission to adopt an ROE that might be considered to
10 be on the lower end of the spectrum and maybe outside of that
11 lower end, by you and Dr. Morin, versus adopting an ROE that
12 is, perhaps, a little more aggressive, and I know Dr. Morin
13 thought my use of the words "aggressive" and "conservative"
14 were reversed, but a more aggressive ROE that would allow the
15 Company a larger return?

16 MR. PARCELL: All right. You are asking a
17 technical person a policy question. From a policy or a
18 regulator perspective, I can see where that would be a factor
19 you may want to consider and you may be proper in considering
20 that; but, as an analyst, a cost of capital witness, who does
21 models, that is not a factor that I should consider in my
22 recommendation, because that's policy and I'm not -- I'm
23 technical.

24 COMMISSIONER KONDO: Fair enough.

25 ECAP mechanism, is the ECAC mechanics, the

1 mechanics or the specifics of the ECAC mechanism, is that
2 important for your determination as to the appropriate ROE
3 adjustment?

4 MR. PARCELL: Not as long as it allows for the
5 recovery of the costs. In other words, one way to skin a cat
6 is one way to recover the costs as long as they're recovered,
7 in a similar fashion, that's a wash to me.

8 COMMISSIONER KONDO: And you have no understanding
9 as -- or you don't have an understanding as to the different
10 ECAC proposals that are part of the decoupling docket?

11 MR. PARCELL: That's correct. Now the people, who
12 that's their life, who do rate design and mechanisms like
13 that, it would be a very important to issue to them, but it
14 would not for me, as long as it recovers the costs the fuel
15 costs.

16 COMMISSIONER KONDO: Given that caveat, as long as
17 it recovers the fuel costs, if the proposed ECAC mechanisms,
18 put more risk to the Company's ability to recover the fuel
19 cost and not going to quantify the risks but more risk, would
20 that alter your analysis with respect to the ROE?

21 MR. PARCELL: If you're asking me if a potential
22 regulatory adjustment or implementation in this proceeding
23 would have the effect of making the Company more risky should
24 that be considered the cost of capital, and my answer is if
25 it's measurable and if it's deemed to be something that the

1 (inaudible) Company, for whatever the reason, the answer would
2 be yes.

3 COMMISSIONER KONDO: I guess I'm troubled to
4 understand why you, like Dr. Morin, did not -- you do not feel
5 like it's important to understand the mechanics of the
6 mechanism given the potential that it could increase the risk
7 to the Company?

8 MR. PARCELL: Well, there's two reasons. From a
9 practical standpoint, there's not enough hours in a day for
10 Dr. Morin and I to learn everything about every mechanism in
11 every case that we testify; and, if we did so, the time aside,
12 the charge we'd make to our clients would be many times over
13 what they are now. That's a practical aspect. But, from a
14 technical standpoint, as a cost of capital witness, we let
15 other people do that and just like the people who did these
16 mechanisms, don't testify on cost of capital.

17 Now is there overlap between recommendations? Yes.
18 We don't normally do cost of equity adjustments for minor
19 things, because, in the course of a rate case, there are a lot
20 of minor things going on, pluses and minuses there, and
21 there's no scorecard where this adds one basis or it deducts
22 two. It doesn't work that way. It's a big picture thing.

23 It's only when you have a major factor, such as
24 decoupling, or PPA, it's when you have a major factor, it's
25 what it is normal for someone like us to make a recommendation

1 for a change of cost of equity; but, when we do so, we leave
2 our tiny, little worlds of our models, where judgment just
3 goes into which amount -- which piece of the model you're
4 picking at inputs and that went to a world what is more
5 judgment involves. That's just the way it is, and I don't
6 want anybody to feel sorry for us, but that's just the way it
7 is.

8 COMMISSIONER KONDO: If you don't know the
9 specifics of the proposed changes to the ECAC mechanism, how
10 do you know if they're not major, at least as you use that
11 term?

12 MR. PARCELL: I would not know; and, in fact, if it
13 was -- I would only be involved in something like that if it
14 were an issue in the case where one side or the other claims
15 there was an issue that required compensation and then I would
16 be involved. Otherwise, it's just to give and take the plus
17 and minus, if you will.

18 COMMISSIONER KONDO: When you say an issue that
19 involved compensation, what does that mean?

20 Compensation by whom to whom? By who to whom?

21 MR. PARCELL: Well, in conversation, it would be
22 rates therefor it would be a change in rates that ratepayers
23 pay to the Company.

24 COMMISSIONER KONDO: A Purchase Power Adjustment
25 Clause, do you have an understanding as to the specifics of

1 that mechanism?

2 MR. PARCELL: Not the specifics, not too specific.
3 I've been in cases before in Nevada, for example, where
4 purchase power is a big thing because the Nevada utilities,
5 like HECO, MECO and HEI -- I mean, HELCO have a big portion
6 through the power of purchasing, only there they don't have a
7 passthrough, they have a -- they accrue it and come to the
8 Commission either quarterly or once a year to get recovery of
9 it. So I'm familiar with the concept, but how do any of them
10 work, no, I don't know.

11 COMMISSIONER KONDO: The answer to my question --

12 MR. PARCELL: No.

13 COMMISSIONER KONDO: -- knowing the specifics of
14 the proposal here, the answer is you don't know. Right?

15 MR. PARCELL: Yeah, I don't know, no, no, I don't.

16 COMMISSIONER KONDO: You have an understanding as
17 to how the Company currently recovers purchase power expenses?

18 MR. PARCELL: Well, there is no such -- it's my
19 understanding that there's no passthrough mechanism at the
20 current time; and, they have to pass them through in the
21 course of a rate case, but that's just a general
22 understanding.

23 COMMISSIONER KONDO: Do you have an understanding
24 as to whether or not any of the purchase power expenses
25 passthrough the ECAC mechanism currently?

1 MR. PARCELL: I do not know.

2 COMMISSIONER KONDO: Does that make a difference to
3 you in terms of the risk of the Company?

4 MR. PARCELL: No, I don't think so.

5 COMMISSIONER KONDO: Does the implementation or
6 adoption of a Purchase Power Adjustment Clause reduce the risk
7 of the Company?

8 MR. PARCELL: For this Company, there's two aspects
9 of that. The answer to one is yes and one is no. With the --
10 as I understand it, with the requirements of the Clean Energy
11 Initiative, the Company is required to purchase some green
12 energy, if you will, the commission (inaudible) rights. I
13 think my notes tell it the feed-in tariff, but it's just notes
14 I made.

15 Recovery of that, something new, that would appear
16 to me to be a wash because it's a new cost but you need to
17 recover it. So it's a new risk, but the risk is mitigated, so
18 that's a wash. Other purchase powers, they're already doing
19 it, though. If it was a true mechanism for recovery of debt,
20 then that's a positive factor. That's why I said part yes and
21 part no.

22 COMMISSIONER KONDO: Would it be appropriate for
23 there to be an adjustment to the ROE if the Commission
24 approves a Purchase Power Adjustment Clause?

25 MR. PARCELL: By itself; only that.

1 COMMISSIONER KONDO: When you say "only that," what
2 else are you talking about?

3 MR. PARCELL: For the purpose of your question,
4 that's the only adjustment mechanism I'm asked to evaluate.
5 Correct?

6 COMMISSIONER KONDO: Correct.

7 MR. PARCELL: Given what I have read in terms of
8 the purchase power requirements of this Company and how big
9 they are and more so in a going-forward basis, I would say for
10 this Company, yes; but for many companies, the answer would be
11 no; but, for this Company, with this large purchase power an
12 improvement in the recovery, it would be a reduction of risk
13 and, therefore, some reduction in cost of equity, yes.

14 COMMISSIONER KONDO: Can you give me an estimate or
15 range of what that appropriate reduction would be?

16 MR. PARCELL: No, not myself.

17 COMMISSIONER KONDO: How would you determine that?

18 MR. PARCELL: How could I?

19 COMMISSIONER KONDO: How would you go about
20 determining that?

21 MR. PARCELL: I can, if you don't mind me using
22 this term "brainstorming" here, I can give you a concept. If
23 we started with a basic premise that the impact of all the
24 rate adjustment proposals made in this case is 50-basis-points
25 reduction and cost of equity, if we start with premise, and

1 then we looked at the individual components, the decoupling,
2 PPAC, et cetera, and made some estimate of what percentage of
3 future costs would be covered by each of those factors; and,
4 then got a ratio, so to speak, it's not added in the process,
5 but if you went into decoupling, you could say, Well, this one
6 is as twice important to the Company as that, such an analysis
7 could be done.

8 Would it be scientific? No. But it would be an
9 analysis based upon the impact on the Company's revenues but
10 it's attributable to each mechanism; and, you could do that
11 and apply it to the 50-basis points. That's one way to look
12 at it. I don't know if it's feasible or not, but just sitting
13 here and trying to answer questions, that's an idea that pops
14 in mind.

15 COMMISSIONER KONDO: Why didn't you do that here?

16 For each mechanism that you described why didn't
17 you do that analysis here?

18 MR. PARCELL: I don't -- I actually don't have the
19 data to do it. I may have to ask for it if you got it but --
20 and, like I said, it's as far as that answer, I don't see this
21 as an added process, because they used the term in MBA classes
22 "synergies," you know, the things tie in together, you
23 can't -- it's hard to take one in isolation; but, the big
24 ones, you could apply something to it. But why did I?

25 COMMISSIONER KONDO: The challenge here,

1 Mr. Parcell, is the fact that there's a number of ongoing
2 proceedings that relate to these various mechanisms.

3 MR. PARCELL: Correct.

4 COMMISSIONER KONDO: So the Commission could reject
5 some, approve some, and our I challenge here is to figure out
6 the different scenarios, in my opinion, as to what the
7 appropriate ROE would be given the various possibilities.

8 MR. PARCELL: And that is a challenge.

9 COMMISSIONER KONDO: Absent that exercise, what is
10 your suggestion to the Commission as to how to handle the
11 appropriate ROE given the various scenarios that could result
12 from the various documents?

13 MR. PARCELL: What I would do, the answer to that
14 question, I would look at the aspects of the Clean Energy
15 Initiative that's going to create the most risk to the Company
16 in terms of recovery, expenditures, et cetera, and the
17 mechanisms that apply to them are the most important.

18 COMMISSIONER KONDO: I'm not sure I understand
19 that.

20 So could you give me an example as to what you're
21 talking about?

22 MR. PARCELL: Yes. So let me just give you what it
23 talks about. I'm not saying it's most important, but the
24 Clean Energy Infrastructure Surcharge, which my understanding
25 is my notes say expedites cost recovery for infrastructure

1 that supports greater use of renewable energy for great
2 efficiencies within the utilities systems.

3 What is that going to costs the Company over the
4 next two to five years and how significant are those costs to
5 the Company in terms of its other costs. If that's a
6 significant factor, then a surcharge that reduces that risk is
7 important. So that's a -- you have to, like, put a ribbon on
8 that one, so to speak. Another one (inaudible) less, then
9 it's not as important. It's not. It's what you factor.

10 COMMISSIONER KONDO: How would the Commission go
11 about in determining the appropriate ROE adjustment for Clean
12 Energy Initiative Surcharge or a Renewable Energy Initiate
13 Surcharge, which is one of the same thing, if it found to be
14 important like you described?

15 How would the Commission go about doing the
16 adjustment?

17 MR. PARCELL: Well, again, the prior answer I gave
18 you, if you insist upon developing a little internal model, if
19 you will, as you look at all of them and see what the costs of
20 each are to the Company, and to find out which costs the
21 Company the most; and, if one factor is not going to
22 contribute as much as the others relative to costs, that may
23 not be as important.

24 COMMISSIONER KONDO: Okay, I understand. You're
25 saying that using the 50-basis points that you suggested would

1 be the appropriate reduction for all of the mechanisms, then
2 we would go and take that apart, in essence, based upon the
3 importance of the various mechanisms?

4 MR. PARCELL: That's right. You realize it's not a
5 truly an added function, but that it would give you some
6 relative indication of magnitude of importance.

7 COMMISSIONER KONDO: And when you say all of the
8 mechanisms, could you identify them for me what you include in
9 that?

10 MR. PARCELL: Well, the one -- the CEIS or the REI,
11 yeah.

12 COMMISSIONER KONDO: Just so that the record is
13 clear, let's call it recognize REIS.

14 MR. PARCELL: That's such a good idea. Yeah, I'm
15 confused myself because there are two sets of acronyms
16 apparently for some of these things, and I hear one and I'm
17 makings notes, and say I don't understand it, and then I
18 realize it's something I haven't -- a different acronym for.

19 Obviously, the Purchase Power Adjustment, you know,
20 don't ask me why I'm said, but I'm relaying to you what I've
21 read in the record. I did not make my own determination, but
22 the Purchase Power Adjustment is very important. I perceive,
23 without justification, but I perceive without using
24 quantification that the Clean Energy Infrastructure Surcharge
25 is important.

1 COMMISSIONER KONDO: It's what we call the REIS?

2 MR. PARCELL: That's fine. And, obviously, to the
3 Company the revenues of decoupling is very important. Those
4 seem, to me, to be the big three.

5 COMMISSIONER KONDO: So when you testified earlier
6 that the 50-basis-point adjustments through the ROE would be
7 appropriate if the Commission approved all of the mechanisms,
8 when you use the word "all," you're talking about those
9 mechanisms that you just described, decoupling, REIS, and
10 PPAC; is that correct?

11 MR. PARCELL: From what I've read, those are the
12 three big, yes; of the others, those are the big three.

13 COMMISSIONER KONDO: Well, did you consider any
14 other mechanisms in deciding that 50-basis points was the
15 correct reduction or did you just look at those three?

16 MR. PARCELL: No, no, I didn't do either of those.
17 What I -- as I said in my testimony, what I did, I said if
18 everything is approved --

19 COMMISSIONER KONDO: But what does that mean?

20 I'm trying to understand --

21 MR. PARCELL: Okay.

22 COMMISSIONER KONDO: -- when you say "everything,"
23 what that includes?

24 MR. PARCELL: Everything proposed.

25 COMMISSIONER KONDO: What is that?

1 MR. PARCELL: Okay. Again, according to my notes,
2 you've got those, you have continued tracking mechanisms for
3 pension and past and post retirement benefits --

4 COMMISSIONER KONDO: Is that something new?

5 MR. PARCELL: Continued I said.

6 COMMISSIONER KONDO: Okay. So you're saying that
7 the Commission --

8 MR. PARCELL: Continuation.

9 COMMISSIONER KONDO: -- continues those?

10 MR. PARCELL: A continuation of automatic revenue
11 adjustment mechanisms to reflect changes in income taxes, and
12 continuance of the Energy Cost Adjustment Clause, ECAC.

13 COMMISSIONER KONDO: Yeah, assuming that the
14 Commission continues all of the existing mechanisms that have
15 already been previously approved, excluding those --

16 MR. PARCELL: Okay.

17 COMMISSIONER KONDO: -- could you provide me what
18 you're including isn't the word "all," aside from decoupling,
19 PPAC, and REIS?

20 MR. PARCELL: Well, those are the three that I've
21 seen is the major new factors from what I've read. If I've
22 missed any, I've missed them, but those are the ones that I've
23 seen.

24 COMMISSIONER KONDO: Well, is that all, because you
25 might have seen it and I want to know if you considered it?

1 MR. PARCELL: Those are the ones I'm aware of, that
2 I'm aware of specifically. And, again, I'm looking at the
3 information that's provided to, for example, the DOD-RIR-7,
4 which is tell us what you gave the rating agencies, and the
5 answer was the form AK, dated, October 23, 2008, so that's --
6 I'm considering information like that. I've read the
7 Company's filings; so, that's the system of valuable
8 information not trying to go into the agreements themselves.

9 COMMISSIONER KONDO: I'm not questioning your
10 knowledge of the various mechanisms. I'm just trying to
11 understand when used the term "all" what is included in there,
12 and I'm trying to get an understanding of the new mechanisms
13 that are currently on the Commission's plate or may soon be on
14 the Commission' plate, the unapproved ones --

15 MR. PARCELL: Okay.

16 COMMISSIONER KONDO: -- as to what this included in
17 that term "all"?

18 MR. PARCELL: Those three are the ones that come to
19 mind.

20 COMMISSIONER KONDO: Are there anything else -- I
21 understand there's the ones that come to mind now, but was
22 there anything else that you considered in deciding that the
23 appropriate adjustment was 50-basis points if the Commission
24 approved all?

25 MR. PARCELL: Not specifically, no.

1 COMMISSIONER KONDO: Is the fact that the imputed
2 debt will be decreased from 50 percent to 25 percent if the
3 Commission approves the PPAC as proposed by the Company have
4 any bearing on your analysis as the appropriate reduction of
5 the ROE?

6 MR. PARCELL: The answer is yes. And you asked me
7 almost the same question five minutes ago, Is the PPA (sic)
8 for Company, and the answer is yes. The PPA (sic) is an
9 important element here, especially with the feed-in tariff, so
10 that with the purchase power growing, the PPA (sic) is
11 important, and it's further important because it reduces the
12 implied debt, imputed debt. The answer is yes.

13 COMMISSIONER KONDO: My understanding of the
14 benefits of the PPAC, and I'd like you to correct me if my
15 understanding is not complete enough, is if it allowed the
16 Company, through a surcharge mechanism, to recover the costs
17 of purchase power, one; and, two, it would allow the Company
18 to reduce the amount of debt that's been imputed to the
19 Company, are there other things that benefit the Company as
20 far as you understand?

21 MR. PARCELL: For the PPA (sic)?

22 COMMISSIONER KONDO: Correct, PPAC, yes.

23 MR. PARCELL: Those are two things that I've heard
24 and seen myself. If there's others, none come to mind at the
25 moment.

1 COMMISSIONER KONDO: The mechanism that we're going
2 to call the REIS, Renewable Energy Infrastructure Surcharge,
3 do you have an understanding as to the specifics of that
4 mechanism?

5 MR. PARCELL: No, not the specifics.

6 COMMISSIONER KONDO: What's your general
7 understanding?

8 MR. PARCELL: Well, what I read a few moments ago
9 about was put in the AK about it, but it expedites the cost
10 recovery for infrastructure that supports these factors, these
11 projects.

12 COMMISSIONER KONDO: Is the AK description the
13 extent of your understanding of REIS?

14 MR. PARCELL: The AK and the Company testimony.

15 COMMISSIONER KONDO: Could you point to the Company
16 testimony that you're referring to?

17 MR. PARCELL: Yes, it's the rebuttal testimony of
18 Ms. Sekimura.

19 COMMISSIONER KONDO: That would be RT-20; is that
20 correct?

21 MR. PARCELL: I guess that would be correct, yes.

22 COMMISSIONER KONDO: Anything else?

23 MR. PARCELL: That's what comes to mind as I sit
24 here.

25 COMMISSIONER KONDO: And I'm sorry if I sound like

1 I'm beating a dead horse on this but --

2 MR. PARCELL: I feel like a dead horse.

3 (Laughter.)

4 MR. PARCELL: Do I look like one?

5 (Laughter.)

6 COMMISSIONER KONDO: But for purposes of your
7 determination that there be an appropriate adjustment downward
8 of the ROE, it was not important to you to understand the
9 specific mechanisms of the REIS -- I'm sorry, for all the
10 acronyms.

11 I guess my question is, You don't feel like you
12 needed to know the details of the REIS to figure out how much
13 the appropriate reduction to the ROE would be; is that
14 correct?

15 MR. PARCELL: That's correct. In fact, if someone
16 wants to explain it to me, I may need to understand it,
17 because it's not my area of expertise.

18 COMMISSIONER KONDO: Given that or assume that the
19 REIS allows the Company to passthrough a surcharge mechanism
20 certain infrastructure expenses that it would otherwise have
21 to wait for a rate case to recover, assume that, okay --

22 MR. PARCELL: Okay.

23 COMMISSIONER KONDO: -- doesn't it matter to you
24 the size of the costs that can be passed through the REIS for
25 determining whether or not or how much the risk to the Company

1 is reduced?

2 MR. PARCELL: That's a different question. The
3 answer is yes to that, because that goes back to what I told
4 you before, if you would have set up a system for measuring
5 the importance, but the way it happens is different from the
6 size or the costs, but those are two different questions, in
7 my view.

8 COMMISSIONER KONDO: Try that again. The way it
9 happens is --

10 MR. PARCELL: In other words, you asked about the
11 mechanical -- the mechanism. To me, the mechanism is not
12 important, but the size of the projects would be important.

13 COMMISSIONER KONDO: What is your --

14 MR. PARCELL: That's a different question.

15 COMMISSIONER KONDO: I'm sorry. What is your
16 understanding as to the size of the projects that can be
17 passed through the REIS mechanism?

18 MR. PARCELL: I have seen no data on that.

19 COMMISSIONER KONDO: So given the fact that you
20 find the size to be important, but not the mechanics, wouldn't
21 it be important for you to get an understanding as to the
22 size of the projects that could be recovered through the
23 surcharge mechanism in determining the amount of ROE
24 adjustment that would be appropriate?

25 MR. PARCELL: Only if I was trying to micromanage

1 this process by looking at each individual point, which I'm
2 not. If my job was, and which I would try not to accept, but
3 if my was to focus on only one, that's how I would go about
4 it, but I would have reservations about it.

5 COMMISSIONER KONDO: Whether you focus on one or
6 whether you focus on a combination, don't you have to know the
7 important factors, and I'm assuming that the REIS, the
8 important factor for you is the size of the projects that
9 could be included in the mechanism, why is that not important
10 whether you're looking at the individual reduction or the
11 reduction associated with the individual mechanism or trying
12 to do it as a group?

13 MR. PARCELL: Because you're asking me to pick and
14 choose among the three major mechanisms, and it's only if I
15 had to pick and choose that I'd have to say which part of the
16 50-basis points should be applied to this one, and I have not
17 been asked until this afternoon to pick and choose one.

18 COMMISSIONER KONDO: No, I don't think I'm asking
19 you to pick and choose. I'm just trying to get a better
20 understanding as you do a cumulative analysis of the various
21 mechanisms that we talked about, how you can come to the
22 conclusion that, in total, the appropriate reduction is
23 50-basis points, if you do not have a very good understanding
24 as to the mechanism itself?

25 MR. PARCELL: Because this process is subjective.

1 If 50 is not enough, it's not enough; but, in my view, 50 is
2 the bottom of my arrangement because my range is 100-basis
3 points. It's not a quantitative assessment. For myself to
4 say that I would not want to recommend a number below the
5 bottom range of the range of reasonableness. It would have to
6 be 50-basis points.

7 COMMISSIONER KONDO: That's your subjective
8 opinion?

9 MR. PARCELL: That is correct. That's my
10 subjective opinion.

11 COMMISSIONER KONDO: When you said it's subjective,
12 reasonable people can disagree as to what the number should
13 be?

14 MR. PARCELL: What kind of people?

15 COMMISSIONER KONDO: Reasonable?

16 MR. PARCELL: Yes. For unreasonable people, I
17 guess, but some of the reasonable people could.

18 COMMISSIONER KONDO: And, I guess, after I asked
19 that question, I was assuming that you would agree given that
20 Dr. Morin didn't agree with you.

21 (Laughter.)

22 MR. PARCELL: You know we'll fight later.

23 (Laughter.)

24 COMMISSIONER KONDO: Did you read Mr. Hill's
25 testimony?

1 MR. PARCELL: Yes. I didn't study it but I read
2 it.

3 COMMISSIONER KONDO: What's your understanding as
4 to the suggestion he has on the ROE?

5 MR. PARCELL: Well, he recommended, I think,
6 9.25 percent.

7 COMMISSIONER KONDO: I don't want to trick you, but
8 I think he was recommending 9.5 percent.

9 MR. PARCELL: Let me check that. His range was
10 9.25 to 10.25.

11 COMMISSIONER KONDO: That's okay. It's not
12 important.

13 MR. PARCELL: I'll accept 9.5. Let's do it. I'll
14 shorten it. Yes, 9.5.

15 COMMISSIONER KONDO: I want to understand your -- I
16 want to get an understanding from you as to your feeling with
17 respect to the regression analysis that Mr. Hill engages in to
18 determine --

19 MR. PARCELL: I didn't study that. I did not.

20 COMMISSIONER KONDO: Have you ever studied that
21 with respect to a testimony by Mr. Hill?

22 MR. PARCELL: Not that I recall.

23 COMMISSIONER KONDO: Given that that's the lack of
24 a better word formula that Mr. Hill uses to determine what he
25 believes is the appropriate reduction in the ROE, given the

1 decoupling mechanism, why did you not study the regression
2 analysis?

3 MR. PARCELL: Because I made my own recommendation.
4 His testimony was filed at the same time as mine; so,
5 there's -- I did not have an opportunity -- well, I did not
6 choose to rebut him because our overall recommendations are
7 similar, and how he got there is really his business, like how
8 I got mine is my business, and we're about the same. I guess
9 I got some comfort from that and I don't really get too hooked
10 on how he got there as long as we're -- if we were quite
11 different, I'd be more concerned about it but they're alike.

12 COMMISSIONER KONDO: Did you read the copy of
13 Mr. Hill's testimony in the Massachusetts Day -- I'm sorry,
14 before the Massachusetts commission relating to the Bay State
15 Gas Company?

16 MR. PARCELL: Yes, I did. That was part of the IR
17 response he made to the Commission I believe and --

18 COMMISSIONER KONDO: In what response?

19 MR. PARCELL: Information Response, I'm sorry, IR.
20 And I saw it, and I did go through it. I did not study it but
21 I went through it and so reviewed.

22 COMMISSIONER KONDO: When you say you did not study
23 it, does that mean that you don't want to talk about the
24 details of --

25 MR. PARCELL: Exactly.

1 COMMISSIONER KONDO: -- this case?

2 (Laughter.)

3 MR. PARCELL: That's exactly what I'm saying.

4 (Laughter.)

5 COMMISSIONER KONDO: Are you not prepared to -- I
6 didn't mean --

7 MR. PARCELL: That too.

8 (Laughter.)

9 COMMISSIONER KONDO: And I noted your comment about
10 the excessive -- maybe that's not the right word that you
11 used, but the profits in these economic times, given the
12 struggles or challenges that HECO's residential and commercial
13 customers are likely experiencing, do you remember that
14 discussion in your initial testimony?

15 MR. PARCELL: Yes.

16 COMMISSIONER KONDO: Given that appreciation of the
17 situation, do you have an opinion as to whether or not the --
18 if there's a question mark in the Commission's mind as to the
19 appropriate ROE adjustment, whether or not that adjustment
20 should take into account those considerations in deciding what
21 the final ROE should be versus ignoring those situations?

22 MR. PARCELL: I think from a policy perspective,
23 that's quite a legitimate thing to look at from an analyst
24 standpoint. I'd point it out to you but it does not go into
25 my recommendation, but I think from a policy perspective, it's

1 a fact that you could consider.

2 COMMISSIONER KONDO: I want to ask you the same
3 questions I asked Ms. Sekimura about the break-even point
4 between from the ratepayer's perspective as to whether it is
5 more cost-effective to lower the ROE thereby increasing the
6 cost of capital versus approving an ROE that is higher than
7 that and thereby allowing the Company to access capital at
8 cheaper costs.

9 Have you ever done an analysis to determine where
10 that tipping point would be?

11 MR. PARCELL: I have not.

12 COMMISSIONER KONDO: And why would that be?

13 Why is that?

14 Why haven't you done that?

15 MR. PARCELL: I've never been asked to.

16 COMMISSIONER KONDO: How would you go about doing
17 that analysis?

18 MR. PARCELL: Well, shooting from the hip, so to
19 speak, my first objective or criteria would be to create a
20 tradeoff, if you will, that would create a situation where the
21 Company would remain investment grade at BBB or above. I'll
22 tell why, if you'd like, or let's go on about it. That would
23 be my objective to stay above BBB, BBB or above.

24 COMMISSIONER KONDO: And why is that?

25 MR. PARCELL: Because when you go below BBB and a

1 BB or B, you don't just get in a situation of higher costs,
2 you get in a position of availability of capital. And let me
3 give you a specific example.

4 I told you about an hour ago about Nevada Power.
5 It doesn't have a Purchase Power Adjustment Clause but they
6 book purchase power into an accrual account with commission
7 approval once a year of which to recover that.

8 In 2002, I see it -- in 2002, the Commission
9 disallowed close to \$500 million of purchase power costs and
10 partly because of imprudence. Well, they didn't from BBB to
11 BB, they went from BB to single B. They issued debt next like
12 14 percent -- well, 12 percent effective rate of 14, and that
13 was just on the account of the initial thrust.

14 They eventually worked very hard and got their --
15 the debt cost down. It was really a struggle for A Company
16 and to its ratepayers because of the magnitude of it. You
17 really don't want to go below BBB. There are times where you
18 just can't sell debt.

19 Now a Company will occasionally do that because --
20 I mean, suppose you disallow something because of imprudence,
21 then you get between a rock and a hard place. You want to
22 point it to the Company but you don't want to point to
23 ratepayers. So you just don't want to do something on purpose
24 that will drive a Company below BBB. You don't want that to
25 be your legacy, in my opinion.

1 Having said that, though, you could say, well,
2 what's the minimum ratios or for BBB- or whatever, and back in
3 the cost of equity, and as long as they earned it, you think
4 they would slide by, but it's nice to have you a little
5 cushion, I think, because once you downgrade it, it takes a
6 while to be back up there. Now I sound like a Company witness
7 again.

8 COMMISSIONER KONDO: But isn't it an analysis that
9 can be performed; would you agree?

10 MR. PARCELL: I think it could with a certain
11 degree of --

12 COMMISSIONER KONDO: Margin per error?

13 MR. PARCELL: Yes, I wouldn't say certainty, but
14 it's an exercise that can be done. It might be a good model
15 to look at. I wouldn't consider it a model to use though.
16 Just one of the factors that goes into the consideration as
17 opposed to driving a consideration.

18 COMMISSIONER KONDO: What type of consultant would
19 perform that type of analysis?

20 Would it be an economist or would it be an
21 accountant or would it be different kind of professional?

22 MR. PARCELL: Maybe a combination. (Inaudible)
23 probably take it out on. You may have to get some, you know,
24 a burrow of little thieves, you know, to put it together or
25 whatnot. That's not a problem for them.

1 (Laughter.)

2 MR. PARCELL: Because I would be one of them. A
3 brotherhood of guys who would -- guys/girls who would say it's
4 not just me. It's all of us together that did it. You know,
5 blame him.

6 COMMISSIONER KONDO: All right. Thank you very
7 much.

8 THE WITNESS: Thank you.

9 CHAIRMAN CALIBOSO: Any other questions for any of
10 the other witnesses or the Commission, staff?

11 All right. I'd like to give the parties a chance
12 for redirect after the Commission's questions have been
13 completed for sure.

14 Mr. Williams, any direct or do you need more time?

15 MR. WILLIAMS: Could we just break for about five
16 minutes?

17 CHAIRMAN CALIBOSO: That's fine.

18 We can recess and return at 4:20.

19 (Whereupon, at 4:13 p.m., a recess was taken, and
20 the proceedings resumed at 4:20 p.m., this same day.)

21 CHAIRMAN CALIBOSO: Good afternoon.

22 This hearing is reconvened.

23 Mr. Williams, any redirect?

24 MR. WILLIAMS: Thank you, Mr. Chairman. No
25 redirect.

1 CHAIRMAN CALIBOSO: Mr. Itomura?

2 MR. ITOMURA: The Consumer Advocate has no
3 redirect.

4 CHAIRMAN CALIBOSO: Well, it is getting kind of
5 late. We could go to closing arguments or come back in the
6 morning.

7 I think Mr. Williams would be 40 minutes and take
8 us to five and the 20 and 10 minutes of over an hour.

9 As long as everybody is available tomorrow, maybe
10 we should move it until tomorrow.

11 MR. WILLIAMS: We would prefer to come back
12 tomorrow morning.

13 CHAIRMAN CALIBOSO: Okay. Okay.

14 We are in recess and we will reconvene in the
15 morning for closing arguments.

16 Thank you.

17 (Whereupon, at 4:20 p.m., the hearing was adjourned
18 and is to be resumed Wednesday, November 4, 2009, at 9 a.m.)
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C E R T I F I C A T E

This is to certify that the attached proceedings before the Public Utilities Commission of the State of Hawaii In the Matter of the Application of Hawaiian Electric Company, Inc. For Approval of Rate Increases and Revised Rate Schedules and Rules, at 465 South King Street, Honolulu, Hawai'i, commencing, on Tuesday, November 3, 2009, was held according to the record, and that this is the original, complete, and true and accurate transcript that has been compared to the reporting or recording, accomplished at the hearing, that the exhibit files have been checked for completeness and no exhibits received in evidence or in the rejected exhibit files are missing.

Tristan Joseph, CSR No. 469, RPR No. 24906

TRISTAN-JOSEPH, CSR NO. 469, RPR NO. 24906

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O + 1 if no copy sold to opposing counsel	\$5.00 per page
Delivery charge	\$10.00

WRITTEN INTERROGATORY DEPOSITIONS

Appearance fee Oahu	\$60.00
Pickup fee Oahu	\$30.00
Appearance fee Outer Island	\$85.00
Pickup fee Outer Island	\$25.00
Original & One copy of transcript	\$3.60 per page
One Copy of Transcript	\$2.80 per page
Storage Fee	\$8.00
Two Copies of records (one for court)	\$0.55 per page

3. The fee and charges specified in Paragraph 2 (are/are not) the usual and customary charges made by myself or my agency for like services to other persons. If not, specify why not:
4. If a financial or services for this or any future deposition will or might in any way be given to the person named in paragraph 1, after this deposition is complete, state what discount it will or may be. (If none, so state)

Signature _____

Judith R. Powers

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